Nestor Healthcare Group plc

Registered number 1992981

Annual Report and Accounts 2006

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Chairman's statement

2006 was a transformative year for Nestor The demerger of the Staffing business to form the AIM-traded Pinnacle Staffing Group, completed in September 2006, enables our management to focus exclusively on providing service solutions to the Social Care and Primary Care markets where there are significant opportunities for growth

On 7th March 2007 the Group completed a rights issue, raising £32 5m, which will enable these opportunities to be more effectively pursued The Board acknowledges the support it has received from its shareholders and bankers and looks forward to making good use of the capital provided

Results summary

The results of Healthcare Staffing are reported as "discontinued operations"

	2006	2005
Continuing operations		
Revenue	**£172 6m**	£205 7m
Operating profit	**£18 6m**	£17 4m
Profit before tax	**£13.8m**	£11 8m
Earnings per share – continuing operations	**10 3p**	9 3p
(Loss)/profit from discontinued operations	**£(20 5m)**	£1 8m

The loss from discontinued operations comprises the previously reported goodwill write down of the Healthcare Staffing business, totalling £14 5m, plus trading losses and the cost of the demerger process

Results from continuing operations

	2006		2005	
		Operating		Operating
	Revenue	**profit**	Revenue	profit
Social Care	**£111.4m**	**£14.2m**	£112 4m	£13 5m
Primary Care	**£61.2m**	**£4.4m**	£93 3m	£3 9m
Total	**£172 6m**	**£18.6m**	£205 7m	£17 4m

Social Care

These business units provide community services, primarily homecare, to Local Authorities and private patients through a network of 142 owned branches with a further 127 franchised operations branded as Carewatch

The reduction in revenue is due mainly to the full year effect of contract losses in the first half of 2005 most notably the Staffordshire contract where we withdrew our tender due to the onerous nature of the contract provisions Revenue in the second half of 2006 was marginally ahead of the same period in 2005 Looking ahead, revenue is expected to grow from the full year effect of the contract wins over the last twelve months including the previously announced Hertfordshire contract which is anticipated to generate revenues of approximately £10m per annum, and to contribute to profit in 2008 following the restructuring costs incurred in 2007 The contract commenced in February 2007 and our performance to date in delivering the standard of service required has been excellent

The primary purpose of the rights issue was to enable the Group to return to the previously successful acquisition programme, adding small domiciliary care businesses in geographic areas where the current network is not represented, as well as more specialist businesses, for example in learning disabilities, which extend the Group's expertise and service offering Two such acquisitions have been completed since the year-end and discussions are under way on a number of other suitable opportunities The acquisition programme in 2003 and 2004 created the Medico network of branches, which have performed consistently well and in 2006 Medico has again increased both its volume and profitability

Social Care margin has continued to improve to 12 7% from 12 1% reported in 2005 This increase stems largely from the growth of the higher margin businesses within the division, including Medico and the two privately funded homecare businesses, Country Cousins and Patricia White's both of which had an excellent year, and Carewatch, which is a franchise model, where much of the income is derived from a management service fee

Primary Care

Primary Care comprises Primecare Primary Care, which provides unscheduled care services to Primary Care Trusts (PCTs) and out-of-hours services to GPs, and Forensic Medical, which delivers primary care services in secure environments and to Police Authorities

"The primary purpose of the rights issue was to enable the Group to return to the previously successful acquisition programme, adding small domiciliary care businesses in geographic areas where the current network is not represented "

Primecare Primary Care continued to improve its profitability in spite of the anticipated reduction in revenue from £52m in the previous year to £41m following the finalisation of the transfer of out-of-hours care to PCTs The business has continued to improve its operational efficiency whilst maintaining a high level of service, which we believe is amongst the best in the sector The restructuring of PCTs and Strategic Health Authorities has meant there have been few new business tenders in recent months but the expectation is that the coming year will present more opportunities both with our existing customer base to extend our current services, as well as with additional PCTs with whom we do not currently contract The focus of management in Primary Care has rightly been directed towards service excellence and efficiency as the market has gone through significant change Investment is now being made to improve our business development capability to ensure we are better equipped to tender effectively for the opportunities we expect to arise in the coming year

Forensic Medical continues to perform to expectations with a number of tender opportunities expected in both the Police business and in prisons and other secure environments where PCTs have assumed responsibility for healthcare provision

Cash flow

Year-end net borrowings were £76 7m (year-end 2005 £79 9m), a net inflow of £3 2m despite a net outflow from discontinued operations of £5 0m Cash flow from continuing operations totalled £20 2m (2005 £20 2m), with continued improvements in working capital management, debtor days outstanding of 37 days represented the best achieved at any year-end point and compare to 40 days at the end of 2005

This period's cash flow includes the sale, in the second half of the year, of our 51% stake in Care Monitoring 2000, a business providing software capable of monitoring care worker attendance, net proceeds from the sale totalled £0 8m in the year

Bank facilities

The Group reduced its banking facilities to a total of £80m as part of the demerger process These facilities remain in place at this level after the rights issue, significantly increasing the financial flexibility of the Group

Taxation

The tax charge for the year was £4 2m (2005 £3 1m), equivalent to 30% of taxable profit (2005 27%) The underlying tax rate for the Group remains at 30%, savings having been made in 2005 following the successful outcome of settlements and claims from earlier years

Dividends

The Board is recommending a final dividend of 2 0p per share (2005 2 0p) payable on 1st June 2007 to shareholders on the register on 4th May 2007 The payment of the final dividend will be made to the holders of approximately 112m shares following completion of the rights issue at a cost of £2 25m, compared to last year's final dividend payment of £1 75m The final dividend is in addition to the interim dividend of 1 0p per share (2005 1 0p) paid in October 2006

Employees

This has been a turbulent year for the Group and its employees and, on behalf of the Board, I thank them all for their continuing contribution to the recovery of Nestor from the previous difficult trading circumstances

Board changes

Dr Bill Holmes resigned from his position as the Group's Medical Director and left Nestor on 31st December 2006 Ingrid Alexander resigned as a non-executive director with effect from 2nd March 2007 As the two longest serving members of the Board both Bill and Ingrid made important contributions during a time of dramatic change in Nestor's markets for which I thank them and I wish them both well for the future

Outlook

The Board believes the demerger of the Healthcare Staffing business to have been in the best interests of both companies and now allows Nestor to focus wholly on its service-based strategy The funding from the rights issue presents management with the opportunity to build upon the strength of its market position in Social Care and also to make the investment in management capability to extend our Primary Care activities

Elements of the markets in which we operate are beginning to show the first signs of converging as PCTs take a wider responsibility for out-of-hospital care The performance of our business and the excellent service quality of both Social Care and Primary Care mean we are well placed to support PCTs and Local Authorities to meet the significant challenges they face

John Rennocks, Chairman
8th March 2007

"The performance of our business and the excellent service quality of both Social Care and Primary Care mean we are well placed to support PCTs and Local Authorities to meet the significant challenges they face."

Our markets and services

At Nestor we focus on providing managed services for health and social care through our Primary Care and Social Care businesses We are taking the opportunity here to explain in more detail the breadth and diversity of our services and the operational performances delivered We deliver managed services, through our partner organisations and directly to individuals, focused on meeting a person's needs and thereby enhancing their wellbeing

Primary Care

Our business

Primary Care is usually the first point of contact for patients, often via their local GP Staff working in primary care include amongst others, GPs, nurses, health visitors, dentists, opticians and pharmacists Primary Care Organisations (PCOs), which include Primary Care Trusts and Local Health Boards, plan and commission health services for their local communities

PCOs work with local authorities and other agencies that provide health and social care to make sure that community needs are being met It is their role to understand the needs of their communities so they can make sure that the organisations providing health care services are working effectively

PCOs ensure that adequate, accessible and relevant health services are provided, embracing hospitals, dentists, mental health services, walk-in centres, patient transport (including Accident & Emergency) population screening, pharmacies and opticians They are also responsible for making certain health and social care systems work together for the benefit of patients

The services we offer

Out-of-hours – our Primecare business provides services out of standard business hours to GPs and dental In the main our services are commissioned by the PCOs as a reliable and effective solution for GP services The GP's patients are redirected to Primecare for emergency and/or unscheduled care services Through a rigorous clinical governance process we determine the most appropriate course of action and then organise and manage the services for that person This may result in telephone advice, an appointment to attend a Primary Care Centre (PCC), or a visit by a doctor in the patient's own home

In-hours services – Primecare provides primary care services in-hours to support GPs and their patients Our services can be extended to provide in-hours support including home visiting, telephone answering and PCC consultations to help meet daytime demand on a short- or long-term basis

Working with A & E departments – in several areas Primecare works in partnership with A & E departments to ensure that patients who visit a Primecare PCC and require urgent emergency treatment are referred quickly to the department This model also allows A & E departments to refer patients to Primecare wherever appropriate

Protected learning – providing in-hours cover to GP practices The need to address training and management requirements is key to any successful GP practice However, it is not always possible to address these issues during normal practice hours Primecare's protected learning service meets this need by providing cover to practices including all call handling, triage and consultations

Special Allocation Schemes (SAS) – protecting GPs and their staff by caring for individuals removed from practice lists Working in partnership with PCOs and GP practices, Primecare provides a vital secure service to deliver general medical services to sometimes violent patients consistent with responsibilities placed on PCOs by the Department of Health

Managed healthcare – an alternative to hospital treatment, tailored to meeting the needs of individuals in the community as set out in the recent white paper "Our health, our care, our say; a new direction for community services" Services include

- Home Central IV therapy and parental nutrition,
- Home chemotherapy;
- Home management of deep vein thrombosis,
- Parkinson's disease management,
- Community stroke rehabilitation,
- Post myocardial infarction rehabilitation,
- Early discharge for replacement operations,
- Admission avoidance for respiratory long-term conditions such as Chronic Obstructive Pulmonary Disease (COPD), and
- Support for the management of long-term conditions such as diabetes

Our markets and services

Social Care

Our business

The term "social care" describes the care of people, of any age which meets their common human needs and gives them a certain quality of life It also describes all types of care for a person that does not involve hospitalisation

Social Services' funds are allocated to sectors of the population such as older people, children and families, people with either learning or physical disabilities, mentally ill adults and asylum seekers Funds can also be allocated by the place and/or means of care, such as day and domiciliary care or residential provision

The market for the provision of care for individuals in their own home continues to grow with more than three million hours of care undertaken every week in the UK With people living longer and the desire from all parties involved to enable individuals to lead their lives as independently as possible, the growth in demand for these services will continue Since the early 1990s Local Authorities have consistently increased the proportion of these services outsourced to the private sector By 2005, 73% of such care was provided by the independent sector

The services we offer

We offer a complete care service, from an initial assessment to determine the service user's needs, through to the delivery of the care directly to the service user This model of service means we are able to organise complex resource and delivery initiatives, managed locally to best meet the needs of those requiring social care services such as domestic, practical and personal care Whether care services are commissioned by public funds, through Local Authorities, or by a person privately, our focus is to provide a locally-based trained workforce able to meet the needs of our service users

Care for specialist sectors

Older people – providing older people with the best possible quality of care enables them to make choices about their quality of life Working together within the existing care network can provide sometimes very simple solutions Domestic services can provide assistance with nutrition, often through basic support tasks like accompanied shopping and helping prepare meals whilst at the same time helping the individual to retain or regain key skills themselves

Older people are also able to benefit from practical services, such as accompanied day centre participation, gardening, dancing and music clubs, activities tailored as closely as possible to the person's own preferences,culture or religion A key element of our services is respite care, designed to ensure that primary carers get some well needed respite themselves

Our enhanced services such as those for older people with physical disabilities, or specialist services for conditions like dementia or Alzheimer's, are flexible and can keep pace with the person's needs As a person gets older the complexity of their needs can increase with the loss of mobility, dexterity, sensory ability – such as vision and hearing loss – and also cognitive ability Working in partnership with the Local Authority, our breadth and experience in providing service delivery solutions enables us to help a person make dignified choices and receive the right care services

Children's and families' services – designed to ensure that the needs of every child are catered for Particular attention is paid to ensure that all members of the child's extended network, such as educational and housing services are included in the design for children's services We are able to provide valuable support to children who may themselves have learning or physical disabilities Alternatively we provide services for children in situations where a parent or primary carer has social care needs, such as alcohol or drug dependency issues

Learning disabilities – our specialist services seek to provide increased independence and enable the best possible quality of life for people of all ages with learning disabilities By using the extensive experience and knowledge in our social care businesses we are able to address the needs of a wide range of people Our training and education teams ensure that the social care workers are suitably prepared and trained to support individuals Many individuals with severe and complex communication needs, sensory loss and challenging behaviours are supported and enabled by our specialist care workers to make choices for themselves

Physical disabilities – our dedicated services provide a range of options to people that may have extensive demands due to their physical incapacity Some of the most effective services are those that support a person in a simple and practical way These services also engender a sense of satisfaction for the care workers involved in providing high quality services We are able to relieve the pressures on care networks and the informal support groups as well as providing support and enablement for the service users

Mental health services – specifically designed to meet the needs of service users who may have long-standing or transient mental health problems, including people subject to guardianship and supervision orders under the Mental Health Act

Operating review continued

Review of the year

Primary Care

Primary Care has delivered an excellent performance in 2006 with a 15% improvement in profitability despite a reduction in revenue of more than 34% to £61.2m. The revenue reduction in Primary Care was expected with the completion of the transfer of the responsibility for out-of-hours service to PCTs. In the main PCTs have internalised services previously outsourced to the independent sector for many years.

Primecare's out-of-hours service revenue reduced to £41.3m from £52.0m in the previous year, but nevertheless improved profitability due to strong control over its cost base, particularly doctor cost, where the overall cost per hour has been steadily reduced. The challenge and opportunity is now to drive increased efficiency from clinicians to ensure that additional calls are handled per hour whilst still maintaining the appropriate clinical governance standards. Our approach to clinical governance remains robust and has been regionalised through the recruitment of managers who will work more closely with the local clinicians to improve still further both performance and efficiency. The ongoing business is contracted with 25 PCTs and seven Local Health Boards (LHBs), with the major concentrations being in the North East, the Midlands and South Wales. Our service to these customers has been consistently excellent and we continue to exceed the standards set by the National Quality requirements for patient access. Whilst service quality statistics are not generally available, we believe Primecare's performance is amongst the best, if not the best, being delivered by any provider. This service quality has led to a number of discussions with existing PCT customers over additional services and the first, albeit small, contracts being awarded for in-hours pharmacy and dentistry provision.

Many of Primecare's contracts were due for renewal in the spring of 2006, however a combination of the reorganisation of PCTs and the excellence of the service quality has led to almost all contracts being extended beyond the end of 2007. The hiatus caused by the rationalisation of the network of PCTs will mean relatively few large out-of-hours tenders are likely to emerge during 2007. More likely is a series of relatively small, but strategically important, opportunities with PCTs we currently service, as they establish their priorities for the services they are now responsible for.

"Primary Care has delivered an excellent performance in 2006 with a 15% improvement in profitability."

In order to meet the increasingly complex demands of the marketplace Primecare is investing in an expansion of its management team, including Business Development, to more effectively address customer requirements and the tender opportunities This is a significant step for Primecare, marking the end of the recovery phase of Primary Care within the Group and the beginning of seriously competing for growth opportunities

Our Forensic Medical services continue to produce good returns but both the Police and Secure businesses saw profits down on the previous year The Police business made a significant investment in developing the quality of its service, in particular through the recruitment of more full-time medical examiners rather than relying heavily on sessional doctors This caused additional costs in the year to train and induct new doctors in the service but has been beneficial in improving quality and provides a more robust base for the service to move forward During the year we lost a contract to support West Yorkshire Police due to historic service issues and the very low tender price of a competitor However this business was quickly replaced by a similar contract with Cheshire Police, which commenced in July 2006 More generally there continues to be a wider interest amongst Police Authorities to more actively consider the use of private providers for their medical services, which bodes well for the future prospects for the Police business More opportunities are also anticipated in the Secure environment where responsibility for the provision of healthcare services has transferred from Prison Governors to PCTs The combination of our improving relationships with PCTs and the excellent service delivered by the business means we are well placed to take advantage of any additional services PCTs may wish to outsource

Review of the year

Social Care

Our Social Care business had another excellent year with a profit improvement of 5% despite a slight reduction in revenue following the loss of a number of contracts in 2005 and the disposal of our stake in Care Monitoring 2000

Currently the majority of care that our businesses deliver is through the Medico and Goldsborough branch networks, which mainly provide support to older people living in their own homes The bulk of this activity is placed through Local Authorities There is also a growing private market as "needs" testing has increasingly prioritised those with complex needs rather than people with more basic requirements and "means testing has limited the numbers of people eligible for Local Authority service The means test has become compulsory as the Local Authorities increasingly find their resources stretched In the latter part of 2005 our approach to pricing tenders was modified in response to the pressures on the Local Authorities' budgets In 2006 this refined approach quickly resulted in a series of new contract wins across the UK, including Northampton, Leeds, Sheffield, Barnsley and Lincolnshire amongst many others In total these contract wins provide a potential of up to 10,000 hours of care per week, worth approximately £10m per annum in revenue

This performance was effectively doubled in November 2006 when we announced our success in securing the contract with Hertfordshire County Council This is the largest domiciliary care contract available in the UK and as such is an outstanding win for our Goldsborough business and the Group as a whole The contract will operate for seven years with a possible extension for a further three years and is expected to generate annual revenue in the region of £10 million per annum The new contract commenced on 1st February 2007 when the employees of the previous provider transferred to Goldsborough The feedback from the customer during the early weeks of our management of the contract has been very positive and we look forward to building upon the already excellent working relationship we enjoy with Hertfordshire County Council

The transfer to the Group of the care workers and administration staff from the previous provider of the service to Hertfordshire enables the service to commence under our management with a complete workforce to deliver the full requirement of the contract This is not the case with other contract wins where incumbent providers will seek to retain the workforce where care packages are difficult to transfer and therefore continuity of care can be difficult to manage This has led to challenges in the initial stages of some contracts as care workers choose to remain with the previous provider Nonetheless, on balance in the last twelve months we have seen an increased workforce choosing to join and remain with our social care businesses

"The contract with Hertfordshire County Council is the largest domiciliary care contract available in the country and is an outstanding win for our Goldsborough business and the Group as a whole."

Care worker recruitment and retention remains a challenge to the whole industry and whilst our local branches endeavour to attract staff we are also fully engaged with national campaigns, including those driven by the Department of Health

Whilst Goldsborough has been the main beneficiary of the recent contract wins it is the performance of the Medico network which has been the more impressive in the year Medico incorporates the majority of the acquisitions made in Social Care in 2003 and 2004 and the businesses have clearly retained the attributes that made them attractive acquisitions Very often the businesses acquired continue to be managed by the original owners who remain focused on the customers' requirements and respond quickly and flexibly to additional local opportunities

It is the success of the previous acquisition process that gives confidence in the returns that will be generated from investment of the capital from the rights issue A number of businesses have already been identified which will meet the Board's acquisition criteria, namely that each acquisition is expected to

- Be earnings enhancing in the first full year following acquisition
- Have the potential for further growth,
- Provide commercial synergies,
- Be of a size so as to be able to be integrated with minimal risk, and
- In time reduce the gearing levels of the Group

The acquisitions identified will either complement the existing branch network geographically or will be a specialist business in a sector where the Group intends to expand its expertise These areas include learning disabilities, caring for children and more complex care at home

The margin improvement achieved, from 12 1% in 2005 to 12 7% this year results largely from the growth and profitability of our private domiciliary care businesses, Country Cousins and Patricia White's, as well as Medico and our franchise operation Carewatch

Country Cousins and Patricia White's act as introductory agencies providing care for the elderly, often through the provision of live-in companions Both businesses had a very successful 2006 and have excellent reputations with their client base leading to most new opportunities being created through word-of-mouth recommendations The business model differs from that of Medico and Goldsborough as the private individual is responsible for the payment of the care worker or companion the Group's revenue derives purely from the agency commission earned, hence the higher margin percentage reported

Our franchise business, Carewatch, which is wholly dedicated to domiciliary care, operates from a further 127 locations, which, together with Medico and Goldsborough, makes the Group the largest provider in what remains a very fragmented sector Carewatch has continued to grow despite the competitive market conditions due mainly to franchisees' excellent knowledge of their local markets and the close working relationships established with local authorities and their care workers

Carewatch provides its franchisees with amongst other elements, the development of new managed services, support in training, IT systems, regulatory compliance finance and marketing support, as well as the quality reputation of the Carewatch brand The Group's primary income from Carewatch is a management service fee based on the revenues earned by each franchise, so again this represents a higher margin model than the "owned" branch networks

Corporate and social responsibilities

Employees

The hard work of all the Group's employees has created the opportunity for us to look ahead with confidence following what has been a transformative year The reorganisation of the Group throughout the last three years has placed great strain and responsibility on all those involved I thank them for their unstinting hard work and dedication

The Group believes that involving its employees in all aspects of its business, particularly the economic and financial factors affecting the Groups performance, is crucial to its future success It is always seeking ways to improve communication across its businesses, both between its central and operational functions and between the various operations themselves where appropriate

It is the Group's policy to encourage employees to participate in its success, through a variety of performance-related incentive arrangements, including the provision of savings-related share option schemes

Diversity

The Group recognises its responsibilities in this key area of working life and is continually taking steps to balance society and employee needs with its business requirements It has a wide and varied employee base with significant numbers of female employees many at senior management level, as well as a significant employee base of individuals who come from ethnic minority groupings

The programme to actively recruit employees with disabilities, particularly in the Birmingham Clinical Response Centre, continued through the year The Group's operational working practices and policies continue to comply with the Disability Discrimination Act 1995

The Group continues to refine its systems to capture the diversity of its workforce and seeks innovative methods of attracting scarce clinical and social care worker resource, including the provision of proven computer diagnostic software enabling clinicians to provide clinical advice from their own homes and operational processes to facilitate part-time working

Training and development

Nestor Academy – Nestor Academy is the framework for our in-house management development programme for our future business leaders The objective is to identify and develop a cross-functional pool of talented employees to support the growth of the business

Nestor Management Award (NMA) – NMA is an accredited professional qualification and is equivalent to NVQ5, first degree or MBA credits This programme is already in place and going forward will be rolled out to more than one hundred branch managers in the coming year

Social Care workforce – every new care worker has to undertake training in the new Common Induction Standards, which were introduced in 2006 Mandatory training includes administration of medicines, protection of vulnerable adults and manual handling This training qualifies as "Accredited Prior Learning" towards the Social Care Workers NVQ2 Award

Clinical governance

The group remains committed to its robust approach to the identification and management of clinical risk In the year we have invested resources in our local clinical management and governance and in the quality teams that support the businesses We continue to develop our governance processes to ensure that our services meet the evolving and demanding regulatory requirements and of course individuals'safety In Primary Care measures of patient access remain well above the national quality standards and measures of patient satisfaction continue to be good whilst in Social Care we have further increased the regularity and scope of our branch audits

Health and safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters It recognises its responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's consideration

In 2006 the Group's Director of Human Resources was directly accountable to the Chief Executive for overseeing safety matters and worked closely with the Group's business units to roll out revised policies and reporting arrangements Day-to-day advice is provided by the Group Health and Safety Manager and by an external consultancy An ongoing training programme supports the effective implementation of this process, which is based on a comprehensive series of risk assessments and reporting arrangements During the year all health and safety matters remained integrated into the Nestor Quality Management System

The FTSE4Good index

As a reflection of the health and social care services that we deliver the Company has been listed on the FTSE4Good index since 2004

Skills for Life

The Department for Education and Skills (DfES) invited the Group to participate and promote the "Skills for Life" programme as one of the first organisations to be a partner Within many workforce population groups there is a recognised lack of basic skills in literacy and numeracy These gaps are being closed through projects enabled by budget investment from the European Social Fund

Environmental policy

The Group and its businesses are committed to following the best environmental practices in the day-to-day conduct of their business and the management of their resources and facilities However as a service-based organisation, with no manufacturing, limited transportation facilities and no freehold properties the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities During the year, the Group continued to refine the formal environmental policy adopted by the Board in 2000, with a particular focus on matters relating to the clinical services provided by the Group The policy document which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Board retains ultimate responsibility for setting and monitoring its policy on environmental matters

Stephen Booty, Chief Executive
8th March 2007

Financial review

Rights issue

On 24th January 2007, the Group announced its intention to raise approximately £30 4m, net of expenses, by means of a 2 for 7 rights issue of up to 25,038,154 new ordinary shares at a price of 130 pence The transaction was completed on 7th March 2007 The majority of the proceeds from the rights issue will be used to fund a series of small acquisitions mainly in Social Care, a similar strategy to that employed in 2003/4 in establishing our successful Medico group of businesses The proceeds will also allow the Group to invest in additional management in both Social Care and Primary Care and to restructure the workforce acquired following the award of the contract with Hertfordshire County Council

Demerger of Healthcare Staffing

The demerger of Healthcare Staffing was completed in September 2006 The process involved the transfer of the business into a new subsidiary, which was then transferred to Pinnacle Staffing Group, a wholly separate AIM-traded company The consideration payable for the business was satisfied by the issuing to Nestor shareholders of an equal number of shares in Pinnacle On completion of the demerger, certain liabilities of the Staffing business were retained and settled by Nestor Nestor continues to provide "back office" services to Pinnacle mainly in the areas of invoicing and payroll, the costs of which are paid by Pinnacle

The results of Healthcare Staffing are reported as "discontinued operations", the commentary below concentrates on the Group's ongoing businesses, now focused exclusively on Social Care and Primary Care

Continuing operations – revenue

Revenue for Social Care and Primary Care reduced by 16 1% to £172 6m as the transfer of responsibility for out-of-hours services to PCTs was completed As a consequence Primary Care revenue fell from £93 3m in 2005 to £61 2m Social Care revenue was marginally down in 2006 following the loss of three significant contracts in the previous year, however revenue will now show growth with the impact of the new contract wins in recent months particularly through the large Hertfordshire County Council contract won in November 2006

Continuing operations – operating profit and margins

Operating profit, before interest and tax, totalled £18 6m compared to £17 4m in 2005, an improvement of 6 7% This performance was achieved despite the significant reduction in revenue and results from the increased operating profit margin of 10 8% compared to 8 5% in 2005

Social Care increased an already strong margin performance to 12 7% from 12 1% in 2005 This margin is affected according to the mix of the business and benefited in 2006 from the growth in profitability of Carewatch, where the Group's income is largely a management service fee, and the strong performance of both our private domiciliary care providers, Country Cousins and Patricia White's

Primary Care continued its profit improvement to £4 4m from £3 9m last year despite the significant reduction in revenue The operating margin is now a very respectable 7 3% due largely to the controls exercised over clinician costs and the ongoing improvement in operational efficiencies

"Operating profit, before interest and tax, totalled £18 6m compared to £17.4m in 2005, an improvement of 6.7% "

Pre-tax profit

Profit before tax, and discontinued operations, amounted to £13 8m (2005 £11 8m), which includes a reduction in interest charges from £5 7m in 2005 to £4 8m as the Group has continued to reduce its borrowings

Taxation

The tax charge for the year was £4 2m, compared to £3 1m in 2005 The average tax rate on profit in 2006 was 30%, compared to the underlying rate last year of 27% when a number of savings were made following the favourable settlement of a number of issues and claims from earlier years

Earnings per share

The basic earnings per share, before discontinued operations, were 10 3p (2005 9 3p) Both figures have been computed as required by IAS 33, Earnings per share, which has the effect of increasing the average number of shares in issue by the implicit bonus element – 6 4% – of the rights issue, and therefore reducing reported earnings per share similarly

Loss from discontinued operations

The loss attributable to the demerger of the Healthcare Staffing business totals £20 5m, comprising impairment of goodwill of £14 5m, operating losses of £3 3m and costs relating to the demerger of £3 2m, less a tax credit of £0 5m

Cash flow and borrowings

Closing net borrowings for the Group amounted to £76 7m (2005 £79 9m), a reduction of £3 2m Cash flow from continuing operations amounted to £20 2m (2005 £20 2m) with debtors and creditors continuing to reduce in absolute terms with the fall in revenues

Net capital expenditure was £1 1m (2005 £0 3m) with the only significant project being the upgrade of IT systems in the Primary Care business Capital expenditure is expected to remain below the level of depreciation for the foreseeable future

Dividends, interest and corporation tax payments amounted to a total of £11 6m (2005 £12 1m)

Equity shareholders' funds

Equity shareholders' funds reduced from £39 2m reported in 2005 to £11 9m, all attributable to the negative impact of the loss from discontinued operations (£20 5m) referred to above together with the cost of the dividend in specie (£16 2m) which gave effect to the demerger

Acquisitions and disposals

No acquisitions were completed during 2006 compared to expenditure of £3 7m in 2005, when the Group purchased branches of Community Careline Services at a cost of £1 7m, and paid deferred consideration of £2 0m in respect of acquisitions made in previous years In July 2006 the Group disposed of its 51% shareholding in Care Monitoring 2000 Limited, which generated net proceeds of £0 8m

Pensions

In accordance with IAS 19, Employment Benefits, the Group is required to compare the market value of its two defined benefit pension funds' assets at the year-end with the actuarial liabilities of those funds At 31st December 2006, the pension funds' assets amounted to a total of £33 0m (2005 £29 6m) compared with total liabilities of £45 0m (2005 £45 8m), a net aggregate deficit of £12 0m (2005 £16 2m)

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long-term liabilities All such instruments play an important part in the operations of the Group to enable it to operate smoothly and efficiently and to pay its obligations as they fall due They also enable the Group to fulfil its investment strategy including making appropriate acquisitions The Group's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise

The Group is primarily a UK business and does not have significant exposure to foreign exchange risks Nevertheless the Group's strategy is to hedge its foreign exchange exposure where it arises with foreign currency loans or forward exchange contracts as appropriate

Financial review continued

The main risks arising from the Group's financial instruments are interest rate and liquidity risks The Board considers each of these risks on a regular basis and the Group's stance towards each of these risks has remained unchanged

The Group completed the renegotiation of its banking facilities in March 2006 Under these arrangements the Group secured £80 0m of committed borrowing facilities plus uncommitted overdraft facilities of £10 0m at an initial margin of 1 10% above LIBOR and due for repayment in December 2009 The margin payable can reduce during the term of the facilities if certain performance criteria are met Following the completion of the demerger in September 2006 the committed borrowing facilities were reduced by £5m and then reduced again by a further £5m in December 2006 to total £70m at the year-end The subsequent rights issue caused no further alteration to facilities, which now total £80m and remain in place until December 2009 At the end of the year, the Group had borrowings less cash of £76 7m (2005 £79 9m) and undrawn committed borrowing facilities of £1 3m It is, and has been throughout the year, the Group's policy that no trading in financial instruments will be undertaken

Under the banking facilities, the Group has entered into hedging arrangements which have the effect of fixing £60m of its borrowing within an acceptable range of interest rates until either May or June 2009

Controls

Financial and operational controls remain robust across the Group with considerable attention paid to the control environment and balance sheet management on a monthly basis A number of new appointments have been made within Finance, which have further improved the overall calibre of the team

Ethical matters

The Board has adopted a formal Code of Business Conduct, covering all the businesses in the Group, which has consolidated all of the various codes previously applicable to them The Code provides comprehensive guidelines to all employees as to the standard of business ethics expected from them as representatives of the Group It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients

The Group operates two comprehensive whistleblowing policies, in respect of clinical issues and general operational and financial matters

At the Group's Business Resource Centre in Hatfield, most gifts received by members of staff from suppliers and potential suppliers are auctioned amongst all staff (where practicable) and the proceeds of such auctions are donated to the Groups Charity of the Year

All senior managers are required to declare, on an annual basis, any hospitality received during the year in their capacity as employees of the Group and to disclose any interests they may have in connected or competing organisations These declarations are monitored by the Group Company Secretary and reported to the Board at the end of each year

All Board members are required, once a year, to submit their annual expense claims to the scrutiny of the entire Board

Martyn Ellis, Finance Director
8th March 2007

"The rights issue caused no further alteration to facilities, which now total £80m and remain in place until December 2009."

Board of directors

John Rennocks Chairman
(61), joined the Group and was appointed to the Board as Chairman in October 2003 A chartered accountant, he is also non-executive chairman of Diploma plc and holds a number of non-executive appointments in a broad range of companies including Inmarsat plc, Foreign & Colonial Investment Trust plc, Babcock International Group plc and Gyrus Group plc Previously, he was Executive Director, Finance of Corus Group plc (formerly British Steel plc) between 1996 and 2001 From 1989 to 1996 he was Finance Director of Powergen plc and prior to that Finance Director and Company Secretary of Smith & Nephew plc

He is Chairman of the Board's Nomination Committee and a member of its Audit and Remuneration Committees

Stephen Booty Chief Executive
(52), was appointed to the Board as an executive director in June 2002, having joined the Group in January 2002, as Managing Director, Healthcare Personnel Division He was appointed Acting Chief Executive in May 2004 and Chief Executive in December 2004

He has over twenty years' experience in the fast moving consumer goods sector, working for blue chip organisations, marketing branded goods and driving efficiencies through innovative business processes His previous roles include Chief Operating Officer, Europe at Chep International and senior sales, management and operational roles at Kimberly-Clark and Scott Paper

Martyn Ellis Finance Director
(50), joined the Group and was appointed to the Board in May 2003 A cost and management accountant, he previously held positions as Finance Director of TeleCity plc, Whitecroft plc, Mann Egerton and Campbell Foods (UK)

Roger Dye Non-executive director
(55), was appointed to the Board as a non-executive director in January 2004 A chartered accountant, he was Finance Director of the Davis Service Group Plc from August 2000 and became its Chief Executive in May 2005 A UK public company director since 1987, he has been Group Finance Director of Transport Development Group plc, Cray Electronics plc and Domino Printing Sciences plc

He is Chairman of the Board's Audit Committee and serves on its Nomination and Remuneration Committees

Sir Andrew Foster Non-executive director
(62), was appointed to the Board in January 2004 He has had a long and distinguished career in public service, having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003 Other previous appointments include Deputy Chief Executive of the NHS and Director of Social Services for North Yorkshire County Council He is now Deputy Chairman of the Royal Bank of Canada Europe Ltd , a non-executive director of the Sports Council and has a range of positions in the public and private sectors

He is the senior non-executive director and Chairman of the Board's Remuneration Committee He is also a member of its Nomination and Audit Committees

Directors' report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2006

Principal activities and business review

Nestor Healthcare Group plc is the holding company of a group of companies in the social care and primary care sectors Its principal activities are organised into two business units These comprise

- Social Care – the provision of home and social care personnel and services through a network of company-owned and franchise branches across the UK and
- Primary Care – the provision of GP and other out-of-hours services to the NHS and the provision of healthcare and related services to Police Authorities and secure institutions

During the year the Group demerged what had been a third business unit, Healthcare Staffing This unit has been treated as a discontinued operation in the financial statements

Summary results for the year were as follows

	2006	2005
Continuing operations		
Revenue	**£172.6m**	£205 7m
Operating profit	**£18.6m**	£17 4m
Profit before tax	**£13.8m**	£11 8m
Earnings per share – continuing operations	**10 3p**	9 3p
(Loss) / profit from discontinued operations	**£(20 5m)**	£1 8m

Results from continuing operations were as follows

	2006 Revenue	**2006 Operating profit**	2005 Revenue	2005 Operating profit
Social Care	**£111 4m**	**£14.2m**	£112 4m	£13 5m
Primary Care	**£61 2m**	**£4.4m**	£93 3m	£3 9m
Total	**£172 6m**	**£18 6m**	£205 7m	£17 4m

Total equity at 31st December 2006 was £11,915,000 (2005 £39,175,000) The reduction takes account of impairment of goodwill relating to the Healthcare Staffing business, amounting to £14 470,000, losses of that business and demerger costs totalling £6,456,000 before taxation and the demerger of that business itself by way of a dividend in specie amounting to £16,171,000

The Chairman's statement, operating review and financial review on pages 2 to 16 provide a further business review and commentary on the Group's activities, trading results and future developments

Results and dividends

The loss attributable to shareholders was £10 905,000 (2005 profit of £10,251,000) The profit after tax from continuing operations was £9,569,000 (2005 £8,651,000) An interim dividend of 1 00 pence was paid in October 2006 following payment of the 2 00 pence final dividend for 2005 in June 2006 The total dividend paid, representing these combined dividends of 3 00 pence, was £2,629,000 (2005 £2,190,000)

The directors now recommend a final dividend of 2 00 pence per ordinary share, to be paid to shareholders on 1st June 2007

Post-balance sheet event

On 24th January 2007 the Company announced a proposed rights issue to raise approximately £32,500,000 (£30,400 000 net of expenses), on the basis of 2 new ordinary shares for every 7 existing shares at a price of 130 pence per new ordinary share This issue was conditional inter alia, upon shareholders' approval to increase the authorised share capital from £9,600,000 to £12,200,000 by the creation of 26,000,000 new ordinary shares of 10 pence each in the capital of the Company and to authorise the allotment of the new shares such approval to be sought at an Extraordinary General Meeting to be held on 9th February 2007 Approval was duly given at this meeting following which provisional allotment letters were sent to qualifying shareholders Net of fractional entitlements cancelled, the number of shares provisionally allotted was 25,037,620 On 7th March 2007 the Company announced that it had received valid acceptances in respect of 24,176,179 new ordinary shares representing approximately 96 6 per cent of the total number of new shares offered to qualifying shareholders The Company further announced that a further 861,441 new shares, for which valid acceptances had not been received, had subsequently been placed with new acquirers The total number of new shares therefore issued via the rights issue is accordingly 25,037,620

Directors

The directors who served during the year were Ingrid Alexander, Stephen Booty, Roger Dye, Martyn Ellis, Sir Andrew Foster, William Holmes and John Rennocks All the directors served throughout 2006, though William Holmes left the Group and resigned as a director on 31st December 2006 and Ingrid Alexander resigned on 2nd March 2007

In accordance with the Articles of Association Stephen Booty and Martyn Ellis will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election

Stephen Booty and Martyn Ellis each has a service agreement with the Company, further details of which are provided at page 26 in the remuneration report

Directors' interests

All directors' interests, including details of shareholdings, are set out in the remuneration report of the Board on pages 23 to 29

Substantial shareholdings

At 5th March 2007, prior to completion of the rights issue, the Company had been notified of the following material interests of 3% or more and non-material interests of 10% or more in its ordinary share capital

Shareholder	Number of shares	Percentage of issued share capital
Schroder Investment Management Limited	21,701,542	24 76
Aberforth Partners LLP	17,575,538	20 06
SVG Investment Managers Limited	4,892,342	5 58
Societe Generale Asset Management UK Limited	4,741,086	5 41
Legal & General Investment Management Limited	4,637,406	5 29
M & G Investment Management Limited	3,316,000	3 78
JP Morgan Asset Management Limited	3,230,693	3 69
Capital Group International, Inc	2 788 609	3 18
Barclays Global Investors Limited	2,635,981	3 01

Details of the authorised and issued share capital of the Company during the year ended 31st December 2006 are given in note 24 to the financial statements

Country of incorporation

The Company is incorporated in Great Britain and registered in England and Wales

Charitable and political donations

No political donations were made during the year (2005 £nil) No charitable donations were made in the year (2005 £2,200)

Taxation status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988

Strategy

The business strategy adopted by the directors is to continue to focus on the Social Care and Primary Care businesses, and in particular to

- Continue to win new contracts with Local Authorities, PCTs Police Authorities and secure institutions,
- Explore opportunities to provide additional services to existing and new customers, and
- Continue to evaluate opportunities to make acquisitions, in particular by the Social Care business

Further details on the criteria adopted when evaluating acquisition opportunities are contained within the operating review on page 11

Directors' report continued

Key performance indicators

When monitoring the performance of the Group and of the individual businesses within it, the directors continue to review several key performance indicators (KPIs) The more important ones used are

Applicable across the whole Group
- Revenue
- Operating profit
- Administration expenses
- Debtor days
- Number of complaints

Applicable to the Social Care business
- Volume – hours
- Commission per hour
- Gross profit
- Gross profit per hour
- Average number of care workers paid per week
- Average hours per care worker paid per week
- Ratio of care worker hours to branch staff hour

Applicable to the Primary Care business
- Doctor pay
- Nurse pay
- Other operating costs
- Cost per doctor hour
- Ratio of doctors to nurses
- Costs per doctor visit and per nurse visit
- Consultations per doctor hour

Risk factors

The directors consider that the Group's business, financial condition and/or results of operations could be materially affected by a number of risks relating either to the business of the Group or more general risks, as follows

- Cuts in government spending may have a material adverse effect,
- That part of the Primary Care business's revenue that is derived from PCTs is subject to risks relating to carrying out business with them
- That part of the Social Care business's revenue that is derived from the social services departments of Local Authorities is subject to risks relating to carrying out business with such departments,
- The Primary Care business is dependent on its ability to recruit and retain suitably qualified doctors and other medical professionals,
- The Group could be at risk of being found deficient in recruitment standards required by regulators and the Group's customers,
- The Group intends to pursue acquisitions which are subject to risks associated with integration, loss of key employees and customers and diversion of management,
- The Group operates a branch network and is dependent on exerting proper centralised management over its branches,
- Increased use of technology in people's own homes may lead to a decrease in the requirement for the Group's services,
- Any necessary increase in employer contributions to the Group's pension schemes or a liability to make good the deficits in the schemes may have an adverse impact on the Group's financial condition and
- Competition for the Group's services may increase and may limit the ability of the Group in future to maintain market share or revenue levels The main barriers to entry in the Group's businesses are (i) rigorous quality assurance standards, regulations and inspections and (ii) business awarded under contracts in relation to which the tendering process is costly and rigorous

Disabled employees

It is the Group's policy that disabled persons should be considered for employment training, career development and promotion on the basis of their abilities and aptitudes in common with all employees

The Group applies employment policies that are fair and equitable for all employees and which ensure that entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons The Group's training and development policies make it clear that the Group will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties

Employee involvement

The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes which are described in more detail elsewhere in this report

Internal circulars and newsletters are issued on a monthly basis and consultation between management and staff is an ongoing process Employees are consulted on issues directly affecting them wherever practicable Further details of the Group's policies and practices relating to employee involvement may be found on page 12 in this report

Creditor payment policy

It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice Copies are available from the CBI at Centrepoint, 103 New Oxford Street, London At 31st December 2006 trade creditors represented fifteen days' purchases (2005 sixteen days)

The directors reports of the Group's United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act The Company, as a holding company, does not itself make any relevant payments in this respect

Auditors

A resolution proposing the reappointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors to the Company and authorising the Audit Committee of the Board to determine their remuneration will be put to the Annual General Meeting

Approved by the Board on 8th March 2007 and signed on its behalf by

David Collison

David Collison, Group Company Secretary

Nestor Healthcare Group plc
Registered number 1992981
Registered office Allen House, Station Road, Egham, Surrey, TW20 9NT

Directors' responsibilities

In respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss and cash flows of the Group for the period to that date

The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards In addition, the directors are required

- To select suitable accounting policies and apply them consistently;
- To make judgements and estimates that are reasonable and prudent,
- To state that the financial statements comply with International Financial Reporting Standards, and
- To prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors confirm that the financial statements comply with the above requirements

Each person who is a director at the date of approval of this directors' report also confirms that

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- Each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

The directors are also responsible for the maintenance and integrity of the Nestor Healthcare Group plc websites on which the financial statements are published Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

The directors are also responsible for maintaining adequate accounting records so as to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Group, and hence for preventing and detecting fraud and other irregularities

Remuneration report

The Board is pleased to present its remuneration report for the year ended 31st December 2006

Remuneration Committee (non-audited)

During the year, the Board delegated its powers to determine the Group's remuneration policy for senior executives, including executive directors, to the Remuneration Committee ("the Committee"), the members of which during the year were Sir Andrew Foster (Chairman) Ingrid Alexander, Roger Dye, all of whom are regarded by the Board as independent non-executive directors and John Rennocks (who was regarded by the Board as being independent within the meaning of the Code, on the date of his appointment) The Board has retained responsibility for setting the remuneration of the Company's Chairman since he currently serves as a member of the Committee

The terms of reference of the Committee may be found on the Company's website Further details relating to the Committee may be found on page 31 of this report

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Code on Corporate Governance published in July 2003 ("the Code") and to the Directors' Remuneration Regulations 2002 It has also received advice on executive remuneration from New Bridge Street Consultants LLP ("NBSC "), which during the year was retained by the Committee as its regular advisor A copy of a statement relating to the terms on which NBSC is engaged by the Committee is available on the Company's website The Committee has also received assistance from Stephen Booty, the Group's Chief Executive and James Buchanan who was the Group's Director of Human Resources until 31st December 2006, both of whom attended meetings of the Committee as required but not in respect of matters relating directly to their own remuneration

The Company has also instructed NBSC to advise it on certain ad hoc matters during the year, for example in relation to the administration of the Company's share schemes

Remuneration policy (non-audited)

The Committee's overall aim is to provide a package of remuneration which

- Is sufficient but no more than is necessary to attract, retain and motivate all of the Group's most senior management, including executive directors,
- Rewards good performance with remuneration that is in line with that payable in broadly comparable businesses, and
- Rewards exceptional performance in such a way as to align the executives' interests with those of the Company's shareholders

To that end, the Committee structures executive remuneration in two distinct parts fixed remuneration of basic salary and benefits and variable performance-related remuneration, in the form of a cash bonus and long-term incentives Remuneration is structured so that the variable pay element forms a significant portion of each director's package

Basic salary and benefits

Basic salary is determined by reference to the responsibilities and performance of the individual directors during the year, taking into account experience and the rates of basic pay for similar roles in comparable companies The Committee s overall aim is to ensure that the basic salary paid to the Group's senior executives is broadly in line with the median of that paid by comparable businesses, having particular regard to their size and complexity Salaries are reviewed annually, normally in November or December of each year and any adjustments usually take effect from 1st January in the following year It is the Committee's practice to undertake formal market benchmarking of directors' and senior executives' salaries, with the assistance of NBSC, every two years With effect from 1st January 2007, executive directors' basic salaries will range from £203 000 to £312,000 The Group additionally provides a range of benefits to executive directors, the most significant of which are a car or cash alternative and pension benefits (full details of which are set out below)

Cash bonus

Each year, the Committee sets stretching bonus targets for each executive, aiming to achieve a balance between short and medium-term objectives In 2006 and 2007, targets comprise overall Group performance criteria relating to profit before tax No bonus is payable if the relevant financial targets are not met

The maximum such annual bonus payable to executive directors is 80% of salary, except that payable to William Holmes, which was 50% of salary (Dr Holmes left the Group on 31st December 2006) Bonuses are not pensionable

Long-term incentives

The Group currently operates three long-term incentive schemes the Nestor Healthcare Group Share Option Plan 2002 ("the 2002 Plan") the Long-term Incentive Plan (the LTIP"), both of which were adopted following approval by shareholders in 2002 and the Performance Share Plan (the "PSP") which was adopted following approval by shareholders in 2006 In proposing the schemes, the Committee took extensive advice from NBSC sought and obtained the prior approval of a number of the Company's largest shareholders and complied with prevailing best practice relating to such arrangements

The Committee believes that share ownership by senior executives is an effective means of rewarding superior performance, since the interests of management and shareholders are thereby aligned The Committee further believes that the provision of share schemes to the Group's managers should be structured in such a way as to encourage them to achieve the Group's long-term aims and that the Group's most senior managers, including executive directors should be rewarded for exceptional performance with potentially significant rewards

i The 2002 Plan

Prior to 2006 it was generally the Group's policy to grant share options regularly, on a tiered basis, to a broad range of middle and senior management, including executive directors Generally (though not in every year) options were granted annually to executive directors, to a value equivalent to one times salary, although in exceptional cases, where a key executive joined the Group, a higher limit was sometimes applied In other years, a lower limit had also been applied In 2005, 1,559,057 share options were granted under the 2002 Plan, but none in 2006

"Normal" options

For "normal" options granted to the Group's most senior executives, including all executive directors a range of normalised earnings per share ("EPS") performance targets applies to grants as shown below

	Average growth required in EPS
1st third of an option	RPI + 5% pa
2nd third of an option	RPI + 6% pa
Final third of an option	RPI + 10% pa

In all cases, performance is tested over a three-year period Since January 2004, the Committee has resolved that there will be no opportunities to re-test performance for grants made after that date

EPS was chosen as the relevant benchmark for the measurement of the Group's performance since the target requires substantial improvement in underlying financial performance before options may be exercised This complements the requirement inherent in an option, which is to grow the share price The range of EPS targets is considered to be appropriately stretching, generating higher potential reward levels for higher levels of financial performance

All of the 1,559,057 options granted during 2005 under the 2002 Plan were "normal" options

"Super" options

In addition to "normal options, the 2002 Plan also provides for the grant of "super" options to certain of the Group's most senior managers including executive directors These options may be granted over shares worth up to one and a half times the individual's salary and the exercise of these options is subject to the achievement of more stretching targets than those prescribed by the Committee in relation to "normal" options

Performance targets relating to "super" options involve a comparison of the Company's total shareholder return ("TSR") with companies in the FTSE Mid 250 index (excluding investment trusts) as at the date of grant, measured over a single three-year period from grant Options are exercisable as set out below

Nestor's TSR ranking in group	% of "super" options exercisable
Below 45th percentile	0%
45th percentile	40%
45th percentile to 25th percentile	Sliding scale from 40% to 100%
25th percentile and above	100%

In addition to the TSR condition above, no element of the option is exercisable unless the Company's EPS growth over the three-year period exceeds 5% per annum over RPI There is no opportunity to re-test performance

No options were granted in either 2005 or 2006 under this scheme

ii The LTIP

Under the LTIP, the executive directors who are eligible to participate (namely Stephen Booty and Martyn Ellis) were required to invest one half of their post-tax cash bonus in buying shares in the Company The investment will be matched by the grant of matching awards

Matching awards will normally only vest on the third anniversary of their grant if the participant is still in the Group's employment, has retained the shares purchased with the bonus and if specified performance targets are met The current performance target involves a comparison of the Company's TSR with companies in the FTSE Mid 250 index (excluding investment trusts) as at the date of grant, measured over a single three-year period from grant Matching awards vest as set out below

	Matching ratio	
Nestor's TSR ranking in group	Chief Executive	Other eligible executive directors
Below 45th percentile	0	0
45th percentile	0 5 1	0 3 1
45th percentile to 10th percentile	Sliding scale from 0 5 1 to 4 1	Sliding scale from 0 3 1 to 2 5 1
10th percentile and above	4 1	2 5 1

In addition to the TSR condition above, none of the awards will vest if the Company's EPS growth does not exceed the growth in RPI by an average of at least 5% per annum over the three-year period There is no opportunity to re-test performance

The Committee considered TSR to be a suitable performance measure for both the super" options and the LTIP as it clearly aligns interests of shareholders and executives It also considers that the FTSE Mid 250 Index is an appropriate benchmark as there are no other companies with a similar business profile to the Company listed on the UK Stock Exchange TSR performance will be independently calculated for the Committee A chart showing the Company's TSR compared to the FTSE Mid 250 Index over the last five financial years is shown below

Participation in the matching awards to date has been as follows

	Notionally awarded in 2004	Share price at date of notional award (p)	Lapsed in 2004	Notionally awarded in 2005	Share price at date of notional award (p)	Lapsed in 2005 and 2006	Potential interest in shares at 31 12 06	Amount charged against profit in 2006 £000
Stephen Booty	33,108	185 0	–	107,559	148 75	–	140,667	40
Martyn Ellis	22,297	185 0	–	51,093	148 75	–	73,390	21
Justin Jewitt	54,054	185 0	(54,054)	–	–	–	–	–
Stephen Page	15,589	185 0	(15,589)	–	–	–	–	–
Total directors	125 048		(69,643)	158,652		–	214,057	61

Earliest vesting dates for awards made in 2004 and 2005 are 7th April 2007 and 11th May 2008, respectively No awards were made in 2006 and the Committee does not currently expect to issue awards under this plan in 2007 or future years

iii The Performance Share Plan

The PSP was approved by shareholders at the Annual General Meeting on 27th April 2006 It was then adopted by the Board and awards made later on the same day Awards were made entitling directors and certain other senior managers to acquire shares in the Company with the awards normally vesting on the third anniversary of the grant (27th April 2009) subject to continued employment and the satisfaction of a TSR growth performance condition No consideration was payable for the grant of the awards and no consideration is payable on vesting

The performance condition required to be met is that the Company's TSR over the three-year period from the date of the award must be at least at the median of a ranking of the TSR of each of the members of a defined comparator group over the same period, in which case the award will vest as follows

Nestor's TSR ranking in group	% of award that vests
Upper quartile or above	100%
Between upper quartile and median	Sliding scale from 35% to 100%
Median	35%
Below median	0%

The comparator group comprises the constituent companies of the FTSE Small Cap index, excluding investment trusts

Awards made on 27th April 2006 to directors were as follows

	Maximum number of shares awarded in 2006	Amount charged against profit in 2006 £000
Stephen Booty	243 750	46
Martyn Ellis	158,594	30
William Holmes	128,750	24
Total	531,094	100

SAYE scheme

The Group also operates a savings-related share option ("SAYE") scheme, which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Group Participation is open to all permanent employees who are able to make regular monthly savings and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately preceding the date on which invitations are made by the Committee In 2005 options over 515,121 shares were issued under this scheme, but no issues were made in 2006

Share price linked scheme

In December 2004, the Group established a phantom long-term incentive arrangement for the benefit of the Chief Executive designed further to align his interests with those of the Group in the light of the significant challenges presented by the changes in the market in which the Group now operates The scheme provides for the grant of 477,137 notional "phantom' options over the Company's shares, which are exercisable in up to two equal tranches, provided the Group achieves challenging profit before tax targets in 2005 and 2006 respectively, at any time after the performance conditions have been met before 14th December 2007 The maximum amount payable under this scheme to the Chief Executive is £500,000 and the value of the award is entirely dependent upon an increase in the Company's share price from the exercise price, the prevailing mid-market price at the date of grant being 125 75 pence

The required profit before tax targets were not in fact achieved in either 2005 or 2006 so the scheme and the awards have now therefore lapsed

Policy on the pensions of executive directors (non-audited)

Until it was closed to new entrants in April 2003 executive directors were able to join the Nestor Healthcare Group Retirement Benefits Scheme ("the Scheme"), a funded, Inland Revenue approved, final salary occupational pension scheme Pensions in the Scheme are based on final salary (excluding bonuses) and length of pensionable service The Company has also established an unapproved scheme to provide additional death-in-service benefits to these directors in line with their basic salaries

Under the Scheme, the normal retirement age of executive directors is 60 and the basic rate of accrual is 1/50th

Since the Scheme was closed to new entrants in April 2003, newly appointed employees, including executive directors, are eligible to join the Nestor Healthcare Group Personal Pension Plan ("GPP"), which is a defined contribution arrangement In respect of executive directors, the Company makes contributions to the GPP at a rate up to a maximum of 20% of the director's basic salary

Executive directors' contracts of service (non-audited)

Policy

It is the Committee's policy only to offer contracts terminable on no more than 12 months' notice to executive directors All currently serving executive directors have contracts of employment terminable in all circumstances on a maximum of 12 months notice When offering contracts of employment to newly appointed executive directors, the Committee has regard to the broad principles outlined in the ABI and NAPF's joint statement on Best Practice on Executive Contracts and Severance, including the director's duty to mitigate his losses in the event of early termination of his contract

Specific contractual details

Current executive directors

			Termination provisions		
	Date of contract	Notice period	"Pay in lieu of notice clause	Share options	Annual bonus
Stephen Booty	1st February 2003	12 months' notice from Company	Note 1	Note 2	Note 3
Martyn Ellis	23rd May 2003	12 months' notice from Company	Note 1	Note 2	Note 3

Notes

1 The Company may terminate the director's employment without notice, provided it pays to him an amount equating to his salary benefits and employer's pension contributions or credits him with an additional period of pensionable service (as applicable) for the unexpired period of notice due under the contract Martyn Ellis's contract permits the Company to pay any monies due on a monthly basis and, at its discretion, to cease or reduce payments if he accepts suitable alternative employment

2 At the Board's discretion, the director may be entitled to retain any vested share options held under the Group's share option schemes for a period of up to 12 months from termination He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date

3 Depending on the time of year at which his employment ceases, the director may be entitled to any bonus earned by him (but not yet paid) for the previous year under the Group's bonus scheme

4 12 months' notice was given to William Holmes on 1st October 2006 His actual date of leaving the Group's employment was 31st December 2006, with nine months' pay in lieu of notice equating to salary plus benefits being paid to him at that point Nine months of pensionable service in the Nestor Healthcare Group Retirement Benefits Scheme were also credited to him

Chairman and non-executive directors (non-audited)

The Board sets the fee levels for the Chairman and non-executive directors Non-executive directors do not hold contracts of employment but are offered letters of appointment for a fixed period of three years, renewable annually thereafter by agreement Non-executive directors do not participate in any of the Group's annual or long-term incentive arrangements, nor is their remuneration pensionable

Current non-executive directors

	Date of letter of appointment	Appointment term	Compensation in the event of early termination of office
John Rennocks	1st October 2003	1 year from 1st October 2006	3 months' fees
Roger Dye	9th January 2004	1 year from 1st January 2007	None
Sir Andrew Foster	16th January 2004	1 year from 1st January 2007	None

Ingrid Alexander resigned as a director on 2nd March 2007 No compensation for loss of office was payable

Directors' emoluments (audited)

	Basic salary and fees 2006 £000	Performance related bonuses 2006 £000	Taxable benefits 2006 £000	Pay in lieu of notice (including pensions) 2006 £000	Total emoluments **2006** **£000**	Total emoluments 2005 £000
Ingrid Alexander	29	–	–	–	**29**	29
Stephen Booty	312	200	122	–	**634**	422
Roger Dye	35	–	–	–	**35**	37
Martyn Ellis	203	100	18	–	**321**	227
Sir Andrew Foster	35	–	–	–	**35**	37
William Holmes	165	–	2	175	**342**	178
John Rennocks	90	–	–	–	**90**	90
Total 2006	869	300	142	175	**1,486**	–
Total 2005	851	–	169	–	–	1,020

Notes

Benefits receivable consist primarily of company car provision or car allowance, car fuel and healthcare insurance

Bonuses were earned by Stephen Booty and Martyn Ellis for their contribution to the successful demerger of the Healthcare Staffing business segment

Included in taxable benefits relating to Stephen Booty is a payment of £104,000 representing compensation in lieu of pension contribution Included in taxable benefits relating to Martyn Ellis is a payment of £5,000 representing compensation in lieu of pension contribution

William Holmes resigned as a director on 31st December 2006 and Ingrid Alexander resigned as a director on 2nd March 2007

The figures above represent emoluments earned as directors during the relevant financial year All were paid in the year that they were earned

Remuneration report continued

Directors' pensions (audited)

Defined benefit scheme

	Accrued pension per annum at 31st December 2006 £000	Increase in accrued pension during 2006 £000	Increase in accrued pension per annum during 2006 excluding price inflation £000	Transfer value of accrued pension at 31st December 2006 £000	Transfer value of accrued pension at 31st December 2005 £000	Transfer value of the increase excluding price inflation less director's contributions £000	Increase in transfer value during 2006 less director's contributions £000
Stephen Booty	**30**	16	16	**415**	177	204	223
William Holmes	**17**	4	3	**231**	170	35	53

The transfer values have been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11 The above figures exclude any benefits derived from directors' additional voluntary contributions

Defined contribution schemes

Employer contributions of £35,280 (2005 £20,940) were paid during the year to the GPP in respect of Martyn Ellis

Directors' interests (audited)

The beneficial and family interests of directors in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 were

	Ordinary shares (non-audited)		Share options (audited) Company plan 1996		Employee scheme 1996		Share option plan 2002		SAYE schemes	
	31 12 06	31 12 05	**31 12.06**	31 12 05	**31 12 06**	31 12 05	**31 12.06**	31 12 05	**31 12 06**	31 12 05
Ingrid Alexander	–	–	–	–	–	–	–	–	–	–
Stephen Booty	**73,680[1]**	73,680[1]	**5,514**	5,514	**23,897**	23,897	**321,340[3]**	321,340[3]	**6,014**	6,014
Roger Dye	–	–	–	–	–	–	–	–	–	–
Martyn Ellis	**17,320[2]**	17,320[2]	–	–	–	–	**193,030**	193,030	–	–
Sir Andrew Foster	–	–	–	–	–	–	–	–	–	–
William Holmes	**4,000**	4,000	**5,882**	5,882	**43,137**	43,137	**175,569**	175,569	**13,638**	13,638
John Rennocks	**4,896**	4,896	–	–	–	–	–	–	–	–

Notes

1 Included in Stephen Booty's ordinary share holding is a total of 23,680 shares held under the LTIP (2005 23,680)

2 All of Martyn Ellis's shares are held under the LTIP

3 112,941 options granted to Stephen Booty under the 2002 Plan in 2002 are "Super Options"

None of the directors has any non-beneficial interest in the Company's share capital

No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year

All directors who owned ordinary shares in the Company and were eligible to participate in the rights issue announced on 24th January 2007 have subscribed in full for their rights With this exception, there have been no changes to directors' interests in the share capital between 31st December 2006 and the date of this report

Details of share options held by the directors during the year were

	Scheme (see below)	At 31st December 2005	Granted	Exercised	Lapsed	**At 31st December 2006**	Exercise price	Date from which exercisable	Expiry date
Stephen Booty	1	23,897	–	–	–	**23,897**	544p	Apr '05	Apr '12
	2	5,514	–	–	–	**5,514**	544p	Apr '05	Apr '12
	3	6,014	–	–	–	**6,014**	157 12p	Jun '06	Nov '06
	4	12,000	–	–	–	**12,000**	301p	Nov '06	Nov '13
	4	196,399	–	–	–	**196,399**	152 75p	Jan '08	Jan '15
	5	112,941	–	–	–	**112,941**	212 5p	Oct 05	Oct '12
Martyn Ellis	4	64,716	–	–	–	**64,716**	273 5p	Jun 06	Jun '13
	4	128,314	–	–	–	**128,314**	152 75p	Jan '08	Jan '15
William Holmes	1	43,137	–	–	–	**43,137**	510p	Oct '04	Oct '11
	2	5,882	–	–	–	**5,882**	510p	Oct '04	Oct '11
	3	13,638	–	–	–	**13,638**	121 16p	Jun '10	Nov '10
	4	58,823	–	–	–	**58,823**	212 5p	Oct '05	Oct '12
	4	12 000	–	–	–	**12,000**	301p	Nov '06	Nov 13
	4	104 746	–	–	–	**104,746**	152 75p	Jan '08	Jan '15

Schemes

1 Employee Share Option Scheme 1996 Options performance target – EPS growth of RPI plus 5% per annum
2 Company Share Option Plan 1996 Options, performance target – EPS growth of RPI plus 5% per annum
3 SAYE Scheme Options
4 The 2002 Plan – "Normal Option"
5 The 2002 Plan – "Super Option"

Notes

1 There is no cost to the employee for the receipt of options under the Employee Share Option Scheme 1996, Company Share Option Plan 1996 or the 2002 Plan Deductions from earnings are made in respect of SAYE options

2 Employee Share Option Scheme 1996, Company Share Option Plan 1996 and the 2002 Plan option prices are fixed at the mid-market price on the business day preceding the date of grant

3 SAYE Scheme options are fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately before the date of invitation

4 The mid-market price at 31st December 2006 was 170 00 pence and the range during the year was 87 31 pence to 170 00 pence

5 No options were exercised by directors in 2006

On behalf of the Board
Sir Andrew Foster, Chairman, Remuneration Committee

8th March 2007

Corporate governance

Introduction

The Company and Group complied throughout the year with the provisions set out in the Combined Code published by the UK Financial Reporting Council in July 2003 ("the Code") except where indicated in this statement

The manner in which the Company applies the principles of good governance contained in the Code is described in the appropriate parts of this Annual Report Thus the application by the Company of the Code's principles to remuneration matters at pages 23 to 29 should be read in conjunction with the statement below

The Board

The Board of directors leads and controls the Company by holding at least eight meetings a year at which its current and forecast performance are examined Regular reports on monthly performance and other matters of importance to the Company and Group ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement In addition, the Board holds regular meetings to discuss and devise the Group's medium- and long-term strategic focus and management development strategy Regular informal presentations are given and meetings held in order to advise directors of issues of importance affecting the Group

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters The Schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense Matters reserved to the Board include the recommendation or approval of dividends, the approval of final and interim financial statements major financial commitments, the acquisition of companies or businesses, appointments to the Board and its committees, the Group's future strategy and the Group's internal controls This Schedule is kept under regular review

During the year, the Board was led by John Rennocks, the non-executive Chairman He also served as a member of the Board's Audit, Remuneration and Nomination Committees

The Chairman's responsibilities are clearly defined in a written specification agreed by the Board prior to his appointment in 2003 They include the smooth running of the Board, effective communication between executive and non-executive directors and the general progress and long-term development of the Group His other significant commitments were disclosed to the Board prior to his appointment.

The day-to-day running of the business of the Company and Group was delegated throughout the year to an executive team of three executive directors led by Stephen Booty Chief Executive and which also comprised Martyn Ellis, Finance Director and Dr William Holmes Group Medical Director Dr Holmes left the Group on 31st December 2006

During the year, three independent non-executive directors with extensive business, finance, health and social care backgrounds provided the Board with a breadth of experience and with independent judgement. Ingrid Alexander, CBE Roger Dye and Sir Andrew Foster served throughout the year with Sir Andrew Foster being nominated as the senior independent non-executive director Ms Alexander has resigned as a director with effect from 2nd March 2007

Having reviewed the Code, the Board considers that its present membership, comprising two independent non-executive directors, two executive directors and the Chairman, is appropriate, with a balance of skills and experience appropriate for the requirements of the business This recognises that in John Rennocks, the Board has a Chairman who remains de facto independent (having met the criteria of independence referred to in Provision A 3 1 of the Code on his appointment in October 2003) It also considers that the Board's policies and procedures are of sufficient strength to ensure that the performance and proceedings of the Company and Group are effectively challenged and controlled

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates Newly appointed Board members undergo an induction programme and have received the opportunity to receive formal training In 2006, the non-executive directors received the opportunity to meet with various members of the Group's management teams on several occasions Further training for directors is available and offered as appropriate

The Board has adopted a formal process for reviewing its own effectiveness and that of its individual members In addition, regular meetings of the non-executive directors are held without the executive directors and, at least once a year, without the Chairman present, in order to evaluate his performance This process and policy have been in place throughout 2006 It is intended that a further formal review by the Board of its own effectiveness will take place in 2007, to be combined with assessments of individual directors and assessments by the non-executive directors of the Chairman's performance

All non-executive directors meet the criteria of independence as laid down in Provision A 3 1 of the Revised Code with the exception of John Rennocks who met all of the criteria of independence on appointment and whom the Board currently regards de facto independent For this reason he remains a member of each of the Board's Nomination, Remuneration and Audit Committees However, the Board intends to keep this under review

Committees

The Board operates three committees, consisting wholly of non-executive directors to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference These comprise the Nomination, Audit and Remuneration Committees

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by John Rennocks The Committee draws on the advice of such professional advisors as it considers necessary

In 2006 the Committee comprised John Rennocks, Ingrid Alexander, Roger Dye and Sir Andrew Foster

The terms of reference of the Nomination Committee are regularly reviewed by the Board

No changes to the composition of the Board were made or contemplated during the year, so no meetings of the Nomination Committee were in practice required

Audit Committee

The Audit Committee is chaired by Roger Dye, a chartered accountant and Chief Executive of the Davis Service Group Plc It comprises only non-executive directors but includes John Rennocks as the Board is of the opinion that the Committee's work benefits from his financial expertise and experience gained as a former executive finance director and as Chairman of the Audit Committee of a number of other publicly-listed companies

In 2006 the other members of the Committee comprised Ingrid Alexander and Sir Andrew Foster Its terms of reference are regularly reviewed by the Board

The Committee met three times during the year to review the preliminary and interim results before they were presented to the Board, to receive reports from the external auditors, to receive reports from the Group's Business Review Team (responsible for carrying out the internal audit function and accountable to the Audit Committee) and to make recommendations to the Board on accounting policies Its primary duties include the monitoring, on behalf of the Board, of compliance with, and the effectiveness of, the Group's accounting and internal control systems The Committee s duties also include monitoring the scope and results of the Group's annual audit and the independence, general performance and objectivity of its auditors The Committee has also agreed and implemented a procedure for reviewing and assessing its own effectiveness, the next such review will take place in 2007 From time to time the Chairman of the Committee also meets informally with the auditors

The Business Review Team, having made a valuable contribution for two years, was stood down in June 2006 The controls and improved procedures introduced by it are now firmly established in the Group's operations The Committee will review the prospect of reinstating the function on an ongoing basis

Remuneration Committee

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive and having received professional advice from remuneration consultants and, in 2006 the Group's Director of Human Resources The Committee is also responsible for approving the grant and exercise of executive long-term incentive arrangements In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Group's senior executives (including executive directors) must be agreed by the Board as a whole

The terms of reference of the Committee are regularly reviewed by the Board

The Committee met three times in the year

Sir Andrew Foster acted as Chairman of the Remuneration Committee throughout the year In 2006 the other members of the Committee were Ingrid Alexander, Roger Dye and John Rennocks, who is currently considered by the Board to be de facto independent and whose membership is therefore appropriate, although this is subject to ongoing review

Short biographies of each of the directors, including their membership of the Board's committees outlined above, may be found on page 17

Attendance at meetings

All directors attended those Board and Committee meetings to which they were entitled to attend

The Board, on behalf of the Company and Group, recognises the need to maintain an active dialogue with its shareholders The Chief Executive and Finance Director meet regularly with institutional investors and analysts to discuss the Group's performance and all shareholders have access to the senior non-executive director, who is available to discuss any questions which investors may have in relation to the running of the Group They also have access to the Chairman if they so require, in 2006 one such meeting took place The Board encourages shareholders to attend the Annual General Meeting and is always willing to answer questions, either in the meeting itself or, more informally, afterwards In addition shareholders may contact the Company direct either through its website or by telephoning its offices on 01784 221600

Corporate governance continued

The Board also recognises the need to ensure that all directors are fully aware of the views of major shareholders about the Group Copies of all analysts' research relating to the Group are circulated to all directors upon publication, monthly analyses of the shareholder register are made available to the Board and written feedback from shareholders and analysts, prepared by the Company's brokers and public relations advisors, is provided to all directors after every significant corporate event and at least twice a year

Going concern

The directors confirm that, after reviewing the financial position and cash flows of the Group and of the Company, they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the accounts

Internal controls

As required by the UK Listing Authority, the Company and the Group have complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The directors first adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group in 1999 This process has been constantly reviewed and revised in subsequent years, including 2006 The revised (and further refined and extended) process has been in place for the whole of 2006 and up to the date of approval of the Annual Report and Accounts

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following

- The Group's management operates a formal process for identifying, managing and reporting on operational, clinical and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a semi-annual basis Senior management team review meetings are held on at least a monthly basis at which the Group's business managers and executive team members report on the progress of the companies or discipline for which they are responsible and share best practice The formal process for identifying discipline-specific risks across the Group's operations encompasses financial, IT, human resources, legal, property and clinical risks A mechanism also exists to extend the Group's formal risk management processes to any significant new business acquired or begun by the Group immediately upon acquisition or start-up In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of 2006,
- At least twice a year the Audit Committee of the Board reviews a register compiled by the managing director of each of the Group s businesses and registers compiled by certain members of the Group's senior management team, summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks, and
- In 2004, the Board took steps better to align its risk management processes with the operational imperatives of the businesses by adopting a dynamic risk-management process that assists the Group's operational management to identify developing trends at an early stage This has been used throughout 2006

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls The processes applied by the Board include

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Group's policies and procedures on risk management. From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Finance Director and Company Secretary, who are also required to confirm their compliance with such procedures and policies This report and the annual compliance statements of each of the managing directors are reviewed by the Board before the Annual Report and Accounts are approved
- At each meeting the Audit Committee reviews reports of the senior management team, internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness,
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration,
- At least twice a year the Audit Committee reviews the work plans and results of the external auditors, and
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings

Auditors' report

Report to the shareholders of Nestor Healthcare Group plc

Independent auditors' report to the members of Nestor Healthcare Group plc

We have audited the Group and Company financial statements (the "financial statements") of Nestor Healthcare Group plc for the year ended 31st December 2006 which comprise the Group income statement, the Group and Company balance sheets, the Group statement of recognised income and expense, the Group and Company cash flow statements and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Chairman's statement, the operating review, the financial review, the directors report, the unaudited part of the directors' remuneration report and the corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited

Opinion

In our opinion

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31st December 2006 and of its loss and cash flows for the year then ended,
- The Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31st December 2006 and cash flows for the year then ended,
- The financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- The information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
8th March 2007

Group income statement

for the year ended 31st December 2006

	Notes	2006 £000	2005 £000
Continuing operations			
Revenue	3	**172,640**	205,724
Cost of sales		**(112,682)**	(144,343)
Gross profit		**59,958**	61,381
Administrative expenses		**(41,352)**	(43,948)
Operating profit	3	**18,606**	17,433
Finance income	5	**21**	30
Finance expense	5	**(4,831)**	(5,672)
Profit before taxation		**13,796**	11,791
Tax expense	6	**(4,227)**	(3,140)
Profit after tax for the year from continuing operations		**9,569**	8,651
Discontinued operations			
(Loss)/profit for the year from discontinued operations	16	**(20,450)**	1,803
(Loss)/profit for the year		**(10,881)**	10,454
Profit attributable to minority interests	27	**24**	203
(Loss)/profit attributable to equity shareholders		**(10,905)**	10,251
(Loss)/profit for the year		**(10,881)**	10,454
(Loss)/earnings per share			
Basic	9	**(11 69p)**	10 99p
Diluted	9	**(11 69p)**	10 98p
Earnings per share – continuing operations			
Basic	9	**10 26p**	9 28p
Diluted	9	**10 26p**	9 27p
Equity dividends	8	**(2,629)**	(2,190)
Dividends per share	8	**3 00p**	2 50p

Group and Company balance sheets

as at 31st December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**£000**	£000	**£000**	£000
Non-current assets					
Goodwill	10	**84,369**	113,839	–	–
Other intangible assets	11	**408**	739	–	–
Property, plant and equipment	12	**3,647**	5,105	–	–
Deferred tax assets	17	**5,710**	7,336	–	–
Investments	14	–	–	**188,267**	114,123
Non-current assets		**94,134**	127,019	**188,267**	114,123
Current assets					
Trade and other receivables	18	**28,031**	39,632	**7,726**	112,614
Cash and cash equivalents	22	**92**	2 098	–	–
Current assets		**28,123**	41,730	**7,726**	112,614
Current liabilities					
Financial liabilities					
Borrowings – overdrafts	21	**(6,790)**	(987)	–	–
Borrowings – loans	21	–	(81,000)	–	(81,000)
Trade and other payables	19	**(18,314)**	(25,647)	–	–
Current tax liabilities	19	**(509)**	(2,012)	–	–
Provisions	23	**(2,998)**	(2,164)	–	–
Current liabilities		**(28,611)**	(111,810)	–	(81,000)
Net current (liabilities)/assets		**(488)**	(70,080)	**7,726**	31,614
Total assets less current liabilities		**93,646**	56,939	**195,993**	145,737
Non-current liabilities					
Financial liabilities					
Borrowings – loans	21	**(70,000)**	–	**(70,000)**	–
Provisions	23	**(11,731)**	(17,764)	–	–
Non-current liabilities		**(81,731)**	(17 764)	**(70,000)**	–
Net assets		**11,915**	39,175	**125,993**	145,737
Equity					
Called up share capital	24	**8,763**	8,763	**8,763**	8,763
Share premium account	25	**43,225**	43,224	**43,225**	43,224
Share payment reserve	25	**951**	636	**951**	636
Other reserves	25	**864**	864	**25,750**	25,750
Retained (losses)/earnings	25	**(41,888)**	(14,565)	**47,304**	67,364
Equity shareholders' funds		**11,915**	38,922	**125,993**	145,737
Minority interests in equity	27	–	253	–	–
Total equity		**11,915**	39,175	**125,993**	145,737

The notes on pages 37 to 68 form an integral part of these financial statements

The financial statements on pages 34 to 68 were approved by the Board on 8th March 2007 and were signed on its behalf by

J L Rennocks

M A Ellis

Group statement of recognised income and expense

for the year ended 31st December 2006

	Notes	2006 £000	2005 £000
(Loss)/profit for the year		**(10,881)**	10,454
Actuarial gains/(losses) arising in defined benefit pension schemes	33	**3,402**	(1,054)
Deferred taxation arising on actuarial (gains)/losses		**(1,020)**	316
Net recognised (expense)/income		**(8,499)**	9,716

Net recognised (expense)/income for the Company was the same as its (loss)/profit in both 2006 and 2005 (see note 7)

Group and Company cash flow statements

for the year ended 31st December 2006

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Continuing operations				
Operating activities				
Cash generated from operations (note 28)	**20,211**	20,177	**17,365**	17,128
Interest paid	**(4,516)**	(5,556)	**(4,532)**	(4,959)
Interest received	**21**	30	**–**	–
Income taxes paid	**(4,513)**	(4,390)	**–**	–
Net cash generated from operating activities	**11,203**	10,261	**12,833**	12,169
Continuing operations				
Investing activities				
Purchase of property, plant and equipment (note 12)	**(1,109)**	(576)	**–**	–
Sale of property, plant and equipment	**–**	250	**–**	23
Purchase of businesses and subsidiary undertakings (note 14)	**(96)**	(3,735)	**–**	–
Sale of subsidiary undertaking (note 15)	**845**	–	**845**	–
Net cash (used in)/generated from investing activities	**(360)**	(4,061)	**845**	23
Continuing operations				
Financing activities				
Issue of ordinary share capital (note 24)	**1**	–	**1**	–
Equity dividends paid to shareholders (note 8)	**(2,629)**	(2,190)	**(2,629)**	(2,190)
Decrease in loans from banks	**(11,000)**	(3,000)	**(11,000)**	(3,000)
Increase/(decrease) in bank overdrafts	**5,803**	(614)	**–**	(7,116)
Net cash used in financing activities	**(7,825)**	(5,804)	**(13,628)**	(12,306)
Net increase/(decrease) in cash and cash equivalents – continuing operations	**3,018**	396	**50**	(114)
Net (decrease)/increase in cash and cash equivalents – discontinued operations	**(5,024)**	723	**(50)**	–
Net (decrease)/increase in cash and cash equivalents	**(2,006)**	1,119	**–**	(114)
Cash and cash equivalents at the beginning of the year	**2,098**	979	**–**	114
Net (decrease)/increase in cash and cash equivalents	**(2,006)**	1,119	**–**	(114)
Cash and cash equivalents at the end of the year	**92**	2,098	**–**	–

Notes to the financial statements
for the year ended 31st December 2006

1 Basis of preparation

The financial information presented in this document has been prepared in accordance with IFRS as endorsed by the European Union and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS that are applicable to the consolidated financial statements for the year ending 31st December 2006

These financial statements have been prepared under the historical cost convention

A summary of the significant accounting policies used in the preparation of these financial statements under IFRS is provided in note 2 below

Estimates and judgements

The preparation of accounts in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reported period These estimates are based on historical experience and various other assumptions that management and directors believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources

Areas comprising critical judgements that may significantly affect the Group's earnings and financial position are revenue collection, valuation of intangibles including goodwill, restructuring activities, provisions for pensions, income taxes, property-related items and share-based payments, all of which are discussed in the respective notes

2 Accounting policies

Basis of consolidation

The accounting reference date of the Group comprising the Company and all its trading subsidiary undertakings, is 31st December These financial statements are accordingly presented for the year to 31st December 2006

The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the effective date of disposal The effective date of acquisition or disposal is considered to be the date when control passes Acquisitions have been accounted for using the purchase method of accounting The cost of acquisition so accounted for includes directly related capitalised costs

Revenue

Revenue is recognised in the income statement when services are supplied to external customers against orders received

Goodwill

Where the cost of acquisition exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised Goodwill is tested for impairment annually and also when indicators suggest that the carrying value may not be recoverable Goodwill is carried at cost less amortisation charged prior to the Group's transition to IFRS on 1st January 2004, less accumulated impairment losses Any impairment is recognised in the period in which it is identified

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2005 and prior years In 2006, the directors have specifically evaluated the carrying values of goodwill for each such acquisition The recoverable amount of goodwill in each cash-generating unit is determined based on value-in-use calculations These calculations require the use of estimates for cash flow projections based on financial budgets approved by management, extrapolated using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates Key assumptions used for value-in-use calculations are budgeted operating profit, depreciation and capital expenditure, working capital requirements growing in line with the growth rates assumed of 2 5% nominal annual increase beyond the budgeted period, and a pre-tax discount rate of 12 5%

Prior to the adoption of IFRS, goodwill was amortised over a period not exceeding 20 years Following the adoption of IFRS goodwill is not amortised Prior to 1st January 1998, purchased goodwill was written off to reserves on acquisition Under IFRS 1, such goodwill is not recognised on transition to IFRS nor is the goodwill transferred to the income statement on disposal of the investment or if the investment becomes impaired

Other intangible assets

Other intangible assets chiefly represent the capitalised value of customer contracts Such contracts are capitalised at cost (or at fair value if acquired through a business combination) and amortised over a period equal to the remaining life of each contract The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Notes to the financial statements

for the year ended 31st December 2006

Property, plant and equipment

Tangible fixed assets are stated at cost less depreciation and impairment Depreciation is calculated so as to write down the cost of tangible assets to their estimated residual value in equal instalments over their estimated useful lives The ranges of estimated useful lives for each major asset category, which are reviewed annually, are

Leasehold land and buildings	Term of the lease
Plant and equipment, fixtures and fittings (including computer equipment)	3 to 8 years

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Investments

Investments in subsidiary undertakings are held at original cost less any provision for impairment

Leases

Leasing agreements which transfer to the Group substantially all the risks and benefits incidental to ownership of the fixed asset being leased are finance leases Assets held under finance leases are recognised as assets of the Group at their fair value, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The corresponding lease commitments are treated as obligations to the lessor Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability Payments under all other lease arrangements, known as operating leases, are charged to the income statement in the period to which they relate

Corporation tax

The amount included in the income statement is based on pre-tax reported profit or loss and is calculated at current tax rates, taking into account temporary differences and the likelihood of realisation of deferred tax assets and liabilities

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date Deferred tax assets and liabilities are not discounted

Employee benefits

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employee's services, in accordance with the advice of qualified actuaries Pension obligations are measured at the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds Pension scheme assets are measured at fair value at the balance sheet date Actuarial gains and losses, differences between the expected and actual returns, and the effects of changes in actuarial assumptions are recognised in the statement of recognised income and expense in the year they arise

The Group's contributions to defined contribution schemes are charged to the income statement as incurred

Share-based payments

IFRS 2 has been applied to all grants of equity instruments after 7th November 2002 in accordance with the provisions of the standard The Group issues equity-settled share-based payments to certain employees under the terms of various employee share and share option schemes, including LTIPs and SAYE share option schemes Equity-settled share-based payments are measured at fair value at the date of grant. The fair value so determined at the grant date is expensed on a straight line basis over the vesting period, based on an estimate of the shares that will ultimately vest Fair value has been measured using a stochastic simulation modelling valuation method

The fair values of awards granted prior to 7th November 2002 have not been charged to income

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the period end exchange rates

Cash and cash equivalents

Cash and cash equivalents comprise balances at banks that are not capable of being offset against overdrafts or other bank borrowings under Group overdraft arrangements, together with balances of cash in hand

3 Segmental reporting

During the year operations were conducted and managed through three segments – Healthcare Staffing, Social Care and Primary Care, with results reported on this basis The Healthcare Staffing business segment was demerged on 4th September 2006 and has been accounted for as a discontinued operation Disclosures for 2005 have been restated accordingly, also to take into account reclassification of certain businesses between business segments in 2006 prior to the demerger

Costs have been allocated on a specific basis where possible, and certain central costs allocated on a reasonable and consistent basis

The UK was the origin and destination of all of the Group's revenue in both 2006 and 2005 All revenue is derived from external customers Materially all of the Group's operating profits/(losses) were earned in the UK, and materially all of the Group's operating assets and net assets were located in the UK, in both 2006 and 2005

	2006 £000	2005 £000
Revenue by business segment		
Social Care	**111,432**	112,361
Primary Care	**61,208**	93,363
Total – continuing operations	**172,640**	205,724
Discontinued operations	**41,807**	103 311
Total revenue	**214,447**	309 035

	Operating profit/(loss)	
	2006 £000	2005 £000
Operating (loss)/profit by business segment		
Social Care	**14,159**	13,557
Primary Care	**4,447**	3 876
Total – continuing operations	**18,606**	17 433
Discontinued operations	**(20,926)**	2,458
Total operating (loss)/profit	**(2,320)**	19,891

	Profit/(loss)	
	2006 £000	2005 £000
(Loss)/profit for the year		
Operating profit by business segment – continuing operations		
Social Care	**14,159**	13,557
Primary Care	**4,447**	3,876
Total operating profit by business segment – continuing operations	**18,606**	17,433
Finance income	**21**	30
Finance expense	**(4,831)**	(5,672)
Profit before taxation	**13,796**	11,791
Tax expense	**(4,227)**	(3,140)
Profit after tax for the year from continuing operations	**9,569**	8,651
Discontinued operations		
(Loss)/profit for the year from discontinued operations	**(20,450)**	1,803
(Loss)/profit for the year	**(10,881)**	10 454

There were no contributions towards revenue or profits from acquisitions in the year (2005 revenue £2,703,000, gross profit £927 000 and operating profit £424,000, all in the Social Care business segment)

Notes to the financial statements
for the year ended 31st December 2006

3 Segmental reporting continued

	Segment assets 2006 £000	Segment liabilities 2006 £000	Net operating assets 2006 £000
Analysis of operating assets and liabilities by business segment – 2006			
Social Care	59,549	(15 337)	44,212
Primary Care	58,700	(12,094)	46,606
Central	3,916	(6,121)	(2,205)
Total operating assets/(liabilities), including goodwill, at 31st December 2006	122,165	(33,552)	88 613

	2006 £000
Net assets per Group balance sheet	11,915
Net debt	76,698
Total net operating assets, including goodwill, at 31st December 2006	88,613

	Segment assets 2005 £000	Segment liabilities 2005 £000	Net operating assets 2005 £000
Analysis of operating assets and liabilities by business segment – 2005			
Social Care	57,343	(8,466)	48,877
Primary Care	56 708	(13,159)	43,549
Central	3,995	(11,982)	(7,987)
Total – continuing operations	118,046	(33,607)	84,439
Discontinued operations	48,605	(13,980)	34,625
Total operating assets/(liabilities), including goodwill, at 31st December 2005	166 651	(47,587)	119,064

	2005 £000
Net assets per Group balance sheet	39,175
Net debt	79,889
Total net operating assets including goodwill, at 31st December 2005	119,064

	Capital expenditure 2006 £000	Acquisitions 2006 £000	Depreciation 2006 £000	Amortisation of intangibles 2006 £000	Impairment of goodwill 2006 £000
Analysis of other segment items – 2006					
Social Care	131	–	778	331	–
Primary Care	359	–	745	–	–
Central	619	–	336	–	–
Total – continuing operations	1 109	–	1,859	331	–
Discontinued operations	7	–	137	–	14 470
Total	1,116	–	1,996	331	14,470

3 Segmental reporting continued

	Capital expenditure 2005 £000	Acquisitions 2005 £000	Depreciation 2005 £000	Amortisation of intangibles 2005 £000	Impairment of goodwill 2005 £000
Analysis of other segment items – 2005					
Social Care	187	1,854	976	344	–
Primary Care	143	–	1,243	–	–
Central	246	–	351	–	–
Total – continuing operations	576	1,854	2,570	344	–
Discontinued operations	56	–	245	–	–
Total	632	1,854	2,815	344	–

4 Operating profit/(loss) – continuing operations

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Operating profit/(loss) of continuing operations is stated after charging/(crediting):				
Employee costs including share-based payments charge	**107,403**	100 148	–	–
Impairment of investment	–	–	**16,171**	–
Amortisation of intangible assets	**331**	344	–	–
Depreciation of property, plant and equipment	**1,859**	2,570	–	–
Loss/(profit) on sale of property, plant and equipment	**58**	(4)	–	–
Operating lease rentals				
Land and buildings	**2,347**	2,808	–	–
Plant and machinery	**411**	385	–	–

Remuneration of the Company's auditor in respect of audit and all other services was as shown below:

	2006 £000	2005 £000
Fees payable for the audit of the annual accounts of the Group and Company	**205**	270
Fees payable for other services		
The audit of the Company's subsidiaries, pursuant to legislation	**26**	26
Other services supplied pursuant to legislation	**325**	–
Tax services	**197**	222
Services relating to corporate finance transactions	**327**	–
Fees payable for other services	**875**	248
Total fees payable to the Company's auditor	**1,080**	518

The £327,000 payable for services relating to corporate finance transactions all related to the demerger and rights issue, as did £310 000 of the fees payable for other services supplied pursuant to legislation

Auditors' remuneration relating to the statutory audit of the Company of £25,000 (2005 £25,000) was borne by another Group company

The impairment of investment accounted for in the Company in 2006 was made to reduce the carrying value by £16,171,000 being the fair value of the net assets of the Healthcare Staffing business that were demerged in September 2006

Notes to the financial statements

for the year ended 31st December 2006

5 Finance income and expense

	2006 £000	2005 £000
Finance income		
Bank interest receivable	**12**	30
Net finance credit on defined benefit pension schemes (see note 33)	**9**	–
Total finance income	**21**	30

	2006 £000	2005 £000
Finance expense		
Unwinding of discount in property provisions	**(140)**	(229)
Interest payable on bank loans and overdrafts	**(4,690)**	(5,043)
Interest payable on other loans	**(1)**	(41)
Net interest cost of defined benefit pension schemes	**–**	(325)
Other interest payable	**–**	(34)
Total finance expense	**(4,831)**	(5 672)

6 Taxation

	2006 £000	2005 £000
UK corporation tax on taxable profit from continuing operations for the year	**(3,477)**	(3 959)
(Under)/over provision in previous years – current tax	**(338)**	428
Current tax charge	**(3,815)**	(3,531)
Deferred tax (charge)/credit for the year	**(412)**	331
Over provision in previous years – deferred tax	**–**	60
Deferred tax (charge)/credit	**(412)**	391
Tax expense for the year – continuing operations	**(4,227)**	(3,140)

The effective tax rate for the year is higher than the standard rate (30% (2005 30%)) of corporation tax for the UK The differences are explained below

	2006 £000	2005 £000
Profit from continuing operations at the standard rate of corporation tax at 30%	**(4,139)**	(3,537)
Items not deductible	**(49)**	(94)
Timing differences	**299**	3
(Under)/over provision in previous years	**(338)**	488
Tax expense for the year – continuing operations	**(4,227)**	(3,140)

	2006 £000	2005 £000
UK corporation tax on taxable profit/(loss) from discontinued operations for the year	**815**	(655)
Under provision in previous years – current tax	**(145)**	–
Current tax credit/(charge)	**670**	(655)
Deferred tax charge for the year	**(194)**	–
Tax credit/(expense) for the year – discontinued operations	**476**	(655)

7 (Loss)/profit for the year

The loss after tax for the year dealt with in the accounts of the Company amounts to £1 260 000 (2005 profit of £21,354,000) £1,210,000 of this loss relates to continuing operations (2005 profit of £21,354,000) and £50,000 to discontinued operations (2005 £nil) As allowed by the provisions of Section 230 of the Companies Act 1985, the Company has not published its own income statement.

8 Dividends

	2006 £000	2005 £000
Equity dividends paid		
Ordinary shares final dividend for the previous year 2 00p per 10p share (2005 – 1 50p)	**1,753**	1,314
Ordinary shares interim dividend for the current year 1 00p per 10p share (2005 – 1 00p)	**876**	876
Total dividends paid on equity shares 3 00p per 10p share (2005 – 2 50p per 10p share)	**2,629**	2,190
Dividend in specie relating to the demerger of the Healthcare Staffing business segment (note 15)	**16,171**	–

In addition, the directors propose a final dividend for the year ending 31st December 2006 of 2 00p per 10p share (cost £2,253,000 on the increased number of shares in issue following the rights issue) and a resolution to this effect will be tabled at the Annual General Meeting It is proposed that the dividend will be paid on 1st June 2007 to shareholders who are on the register of members on 4th May 2007

9 Earnings/(loss) per share

Basic earnings/(loss) per 10p share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares The Group has only one category of potentially dilutive ordinary shares those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year In the year to 31st December 2006 there were no such options, so diluted earnings per share was identical to basic earnings per share

Subsequent to the balance sheet date a further 25,037,620 ordinary 10p shares were issued by way of a 2 for 7 rights issue at 130p The last date for acceptances of the issue was 6th March 2007, prior to the date of approval of the financial statements IAS 33, Earnings per share, requires that in this event the earnings per share for the two years ended 31st December 2006 and 2005 are both adjusted retrospectively so as to add the implicit bonus element of the rights issue to the number of shares in issue, being the denominator of the earnings per share calculation Based on the actual cum-rights share price of the Company at the close of trading on the London Stock Exchange on 9th February 2007, which was 178 50p, the bonus element is calculated to be 6 4274% The average number of shares in issue in each year is therefore to be increased by this percentage Calculated earnings per share are accordingly as follows

	2006 Earnings/(loss) £000	2006 Weighted average number of 10p shares thousand	2006 Earnings/(loss) per share pence	2005 Earnings £000	2005 Weighted average number of 10p shares thousand	2005 Earnings per share pence
Continuing operations						
Earnings per share	**9,569**	**87,633**	**10 92p**	8,651	87,633	9 87p
Bonus element of the 2007 rights issue	**–**	**5,633**	**(0 66p)**	–	5,633	(0 59p)
Dilutive effect of options	**–**	**–**	**–**	–	88	(0 01p)
Diluted earnings per share	**9,569**	**93,266**	**10.26p**	8,651	93,354	9 27p
Continuing and discontinued operations						
Earnings/(loss) per share	**(10,905)**	**87,633**	**(12.44p)**	10,251	87,633	11 70p
Bonus element of the 2007 rights issue	**–**	**5,633**	**0 75p**	–	5 633	(0 71p)
Dilutive effect of options	**–**	**–**	**–**	–	88	(0 01p)
Diluted earnings/(loss) per share	**(10,905)**	**93,266**	**(11 69p)**	10 251	93 354	10 98p

A total of 2 418 451 share options outstanding at the end of the year were not potentially dilutive in the year to 31st December 2006

10 Intangible assets – goodwill

	2006 £000
Cost	
At 1st January 2006	187,290
Additions	–
Eliminated on demerger	(34,426)
At 31st December 2006	152,864
Aggregate amortisation	
At 1st January 2006	73 451
Impairment of goodwill relating to Healthcare Staffing	14,470
Eliminated on demerger	(19,426)
At 31st December 2006	68,495
Net book value	
At 31st December 2006	84 369

	2005 £000
Cost	
At 1st January 2005	187,650
Additions	1,503
Reductions	(1,863)
At 31st December 2005	187,290
Aggregate amortisation	
At 1st January 2005	73,451
At 31st December 2005	73,451
Net book value	
At 31st December 2005	113,839

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2005 and prior years In 2006 the directors have specifically evaluated the carrying values of goodwill for each such acquisition The recoverable amount of goodwill in each cash-generating unit is determined based on value-in-use calculations These calculations require the use of estimates for cash flow projections based on financial budgets approved by management, extrapolated using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates Key assumptions used for value-in-use calculations are budgeted operating profit, depreciation and capital expenditure, working capital requirements growing in line with the growth rates assumed of 2 5% nominal annual increase beyond the budgeted period, and a pre-tax discount rate of 12 5% Having evaluated the carrying values of goodwill in this way, the directors have concluded that an impairment of goodwill was required for the Healthcare Staffing business segment amounting to £14,470,000 This impairment was recognised prior to the demerger of this business segment and has been included within the results for that segment as discontinued operations The directors have also concluded that no impairment of goodwill is needed in the year for any cash-generating unit within the Social Care or Primary Care business segments

10 Intangible assets – goodwill continued

The carrying amounts of goodwill by business segment are as follows

	2006 £000	2005 £000
Goodwill by business segment		
Continuing operations		
Social Care	**39,217**	39,217
Primary Care	**45,152**	45,152
Total for continuing operations	**84,369**	84,369
Discontinued operations	**–**	29,470
Total	**84,369**	113,839

In 2006 prior to the demerger of the Healthcare Staffing business segment, certain elements of that segment were transferred into the Social Care and Primary Care business segments The comparative numbers for 2005 disclosed above have been restated accordingly

11 Other intangible assets

	2006 £000
Cost	
At 1st January 2006	1,355
At 31st December 2006	1,355
Aggregate amortisation	
At 1st January 2006	616
Charge for the year	331
At 31st December 2006	947
Net book value	
At 31st December 2006	408

	2005 £000
Cost	
At 1st January 2005	913
Additions	442
At 31st December 2005	1,355
Aggregate amortisation	
At 1st January 2005	272
Charge for the year	344
At 31st December 2005	616
Net book value	
At 31st December 2005	739

11 Other intangible assets continued

Other intangible assets represent the capitalised value of customer contracts acquired via business combinations (acquisitions of businesses and subsidiary undertakings) made since 1st January 2004 Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract. Contract lives so amortised varied between one year and five years All were within the Social Care business segment at both 31st December 2006 and 31st December 2005

All of the other intangible assets were owned by subsidiary undertakings of the Company at both 31st December 2006 and 31st December 2005

The Group carries out reviews of its intangible assets on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable If any such indication exists, the recoverable amount of the asset is estimated as either the higher of the net selling price or value in use, the resultant loss (the difference between the carrying amount and the recoverable amount) is recorded as a charge to the consolidated income statement The value in use is calculated as the present value of the estimated future cash flows expected to result from the use of assets in the business being evaluated In order to determine the present value of estimated future cash flows, the Group uses a discount rate based on its estimated weighted cost of capital, together with any risk premium as appropriate Estimated future cash flows used in the impairment calculations represent management's best view of likely market conditions including selling prices, volumes and employment costs Actual cash flows may differ significantly from these estimates due to the effect of changes in market conditions or to subsequent decisions on the activities of the business These differences may have a material impact on the asset values, impairments and amortisation expense reported in future periods

12 Property, plant and equipment

	Leasehold land & buildings 2006 £000	Plant & equipment fixtures & fittings 2006 £000	Total 2006 £000
Group – 2006			
Cost			
At 1st January 2006	82	13,825	13,907
Additions	–	1,116	1,116
Eliminated on demerger	(42)	(1,867)	(1,909)
Eliminated on disposal of subsidiary	–	(258)	(258)
Disposals	–	(163)	(163)
At 31st December 2006	40	12,653	12,693
Depreciation			
At 1st January 2006	68	8,734	8,802
Charge for the year	10	1,986	1,996
Eliminated on demerger	(42)	(1 425)	(1,467)
Eliminated on disposal of subsidiary	–	(180)	(180)
Eliminated on disposals	–	(105)	(105)
At 31st December 2006	36	9,010	9,046
Net book value			
At 31st December 2006	4	3,643	3 647

12 Property, plant and equipment continued

	Leasehold land & buildings 2005 £000	Plant & equipment, fixtures & fittings 2005 £000	Total 2005 £000
Group – 2005			
Cost			
At 1st January 2005	82	13,509	13 591
Additions	–	632	632
Disposals	–	(316)	(316)
At 31st December 2005	82	13,825	13,907
Depreciation			
At 1st January 2005	56	6 001	6 057
Charge for the year	12	2,803	2,815
Eliminated on disposals	–	(70)	(70)
At 31st December 2005	68	8,734	8,802
Net book value			
At 31st December 2005	14	5,091	5,105

	Plant & equipment, fixtures & fittings 2006 £000
Company – 2006	
Cost	
At 1st January 2006	–
At 31st December 2006	–
Depreciation	
At 1st January 2006	–
At 31st December 2006	–
Net book value	
At 31st December 2006	–

Notes to the financial statements

for the year ended 31st December 2006

12 Property, plant and equipment continued

	Plant & equipment, fixtures & fittings 2005 £000
Company – 2005	
Cost	
At 1st January 2005	291
Disposals to other Group companies	(291)
At 31st December 2005	–
Depreciation	
At 1st January 2005	268
Eliminated on disposals to other Group companies	(268)
At 31st December 2005	–
Net book value	
At 31st December 2005	–

13 Commitments

	2006 £000	2005 £000
Capital expenditure that has been contracted but not provided for	–	–

The Company has made a commitment to the Pensions Regulator to make cash payments into the Nestor Healthcare Group Retirement Benefits Scheme of £1,500,000 per annum, to commence in 2007 It is planned that such payments, maintained annually, will eliminate the funding deficit of this Scheme over a period not exceeding ten years

14 Investments and acquisitions

	Investment in subsidiaries 2006 £000
Company	
At 1st January 2006	114,123
Additions	90,000
Impairment	(16,171)
Capital contributions for share-based payments	315
At 31st December 2006	188,267

In September 2006, immediately prior to the demerger of the Healthcare Staffing business segment, £90,000,000 due to the Company from a subsidiary by way of intercompany loan was waived Following this waiver, the amount remaining due to the Company on this intercompany loan reduced from £92,033,000 to £2,033,000 This waiver has been accounted for by the Company as a capital contribution thereby increasing the carrying value of investments

Subsequently, on demerger, an impairment was accounted for by the Company in the carrying value of investments equivalent to the amount of the dividend in specie £16,171,000, made by a subsidiary company Investments in Group undertakings are stated at cost less impairments

14 Investments and acquisitions continued

	Investment in subsidiaries 2005 £000
Company	
At 1st January 2005	113,698
Capital contributions for share-based payments	425
At 31st December 2005	114,123

No impairments against cost were taken in the year ended 31st December 2005

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the United Kingdom and are registered in England & Wales All companies have been included in the consolidated results of the Group

Principal undertakings

Undertaking	Business
Nestor Primecare Services Limited[1]	UK healthcare services in primary and social care
Nestor Equipment Leasing Limited[1]	Provision of asset leasing
Helenus Limited	Intermediate holding company

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length A full list of subsidiary undertakings will be annexed to the Company's next annual return

Related party transactions

The Group had no material transactions with related parties during the year The Company holds amounts due from certain of its subsidiaries at 31st December 2006 (see note 18) Transactions between the ultimate parent company and its subsidiaries, and between its subsidiaries, have been eliminated on consolidation

Details of any transactions with directors are set out in the remuneration report Compensation of directors and key management is disclosed in note 31 During the year there were no material transactions or balances between the Group and its key management personnel or members of their close family

Business acquisitions

No acquisitions were made by the Group in 2006 Neither were any adjustments made to consideration paid, assets and liabilities acquired or goodwill arising relating to any acquisitions made in 2005 or prior years Cash payments were made to the original vendors of two acquisitions made in prior years to settle deferred consideration, at amounts previously accrued

	Total £000
2003 and 2005 acquisitions	
Deferred and retained consideration previously accrued, paid in 2006	96
Total cash flows in respect of purchase of businesses and subsidiary undertakings	96

At 31st December 2006 a total of £520,000 of deferred and retained consideration remained to be paid in respect of acquisitions made in 2003 and 2005

Business acquisitions after the balance sheet date

Since 31st December 2006 the Group has completed the purchase of one company, Briarcare Limited, and exchanged contracts for the purchase of another, Marwood Care Limited Both companies will form part of the Social Care business segment Initial consideration payable, inclusive of capitalised costs is approximately £3,800,000, less cash balances inherited of approximately £800,000 In addition further sums of £1,615,000 (maximum) are potentially payable at future dates, dependent in part on performance

Notes to the financial statements

for the year ended 31st December 2006

15 Demerger and disposals

Demerger of Healthcare Staffing business segment

At an Extraordinary General Meeting on 4th September 2006, the shareholders of the Company approved the demerger of the Group's Healthcare Staffing business segment This was then effected on the same day by first transferring it to a newly formed wholly-owned subsidiary, Pinnacle Health Care Limited ("PHCL"), and then declaring a special dividend equal to the book value of its shareholding in PHCL on demerger, satisfied in specie by the issue of shares in Pinnacle Staffing Group plc ("PSG") to the Company's shareholders The Company at the same time transferred its shareholding in PHCL to PSG PSG was admitted to trading on AIM from the start of the next business day 5th September 2006

The book value of the net assets so demerged was £16,171,000, as follows

	£000
Intangible assets – goodwill	15,000
Property, plant and equipment	442
Trade and other receivables	7,054
Cash and cash equivalents	25
Trade and other payables	(6 199)
Provisions	(151)
Net assets of Healthcare Staffing business segment demerged	16,171

Costs of £3,170,000 associated with the demerger have been charged against discontinued operations in the income statement.

Disposal of 51% shareholding in Care Monitoring 2000 Limited

On 21st July 2006 the Group completed the disposal of its holding of 51% of the issued share capital of Care Monitoring 2000 Limited to its minority shareholders, for a total consideration of £2,251,000 net of expenses, of which £900,000 was deferred for periods up to July 2009

Care Monitoring 2000 Limited earned revenue of £815,000, profit before tax of £333,000 and profit after tax of £233,000 in 2006 prior to disposal

	£000
Cash flows in respect of disposal of subsidiary undertaking	
Total consideration	2,251
Less deferred consideration, not yet received	(900)
	1,351
Less cash balances disposed of	(506)
Total cash flow in respect of disposal of subsidiary undertaking	845

Profit on disposal of the 51% shareholding in Care Monitoring 2000 Limited was £1,962,000 computed as follows

	£000
Net assets	
Property, plant and equipment	78
Trade and other receivables	391
Cash and cash equivalents	506
Trade and other payables	(409)
Net assets of Care Monitoring 2000 Limited	566
Less minority interest – 49% of net assets	(277)
	289
Total consideration	2,251
Profit on disposal	1,962

16 Discontinued operations

	2006 £000	2005 £000
(Loss)/profit of discontinued operations		
Operating (loss)/profit of discontinued operations before goodwill impairment	**(3,286)**	2,458
Impairment of goodwill	**(14,470)**	–
Operating (loss)/profit of discontinued operations	**(17,756)**	2,458
Tax credit/(charge)	**476**	(655)
(Loss)/profit after tax of discontinued operations	**(17,280)**	1 803
Losses on demerger of discontinued operations		
Costs relating to the demerger	**(3,170)**	–
(Loss)/profit for the year from discontinued operations	**(20,450)**	1 803

The Group demerged its Healthcare Staffing business segment on 4th September 2006 As a result, this operation has been reclassified as discontinued

	2006 £000	2005 £000
Cash flows relating to discontinued operations		
From operating activities	**(6,822)**	779
From investing activities	**1,798**	(56)
Net decrease in cash and cash equivalents in discontinued operations	**(5,024)**	723

17 Deferred tax assets

	2006 £000	2005 £000
Pension liability	**3,597**	4,866
Accelerated capital allowances	**1,425**	1 833
Intangible assets	**284**	185
Share-based payments	**270**	176
Other	**134**	276
Total potential and recognised deferred tax assets	**5,710**	7,336

All of the Group deferred tax assets potentially recognisable have been recognised and included in non-current assets There were no deferred tax assets of the Company at either 31st December 2006 or 31st December 2005

Notes to the financial statements
for the year ended 31st December 2006

18 Trade and other receivables

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Trade receivables				
– Gross	**18,269**	32,664	**–**	–
– Bad debt provision	**(545)**	(1,914)	**–**	–
Amounts owed by Group companies	**–**	–	**7,726**	112,614
Accrued income and other debtors	**7,064**	5,618	**–**	–
Prepayments	**3,243**	3,264	**–**	–
Trade and other receivables due within one year	**28,031**	39,632	**7,726**	112,614

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated Accordingly, management believe that there is no further credit risk provision required in excess of normal provision for doubtful receivables

19 Current liabilities – falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Financial liabilities				
– Bank overdrafts (note 21)	**6,790**	987	**–**	–
– Bank loans (note 21)	**–**	81 000	**–**	81,000
Trade payables	**4,777**	10,120	**–**	–
Deferred consideration for acquisitions	**520**	616	**–**	–
Other creditors	**1,707**	7,943	**–**	–
Accruals and deferred income	**7,394**	3,437	**–**	–
U S payroll tax	**1,407**	1,575	**–**	–
Other UK tax and social security	**2,509**	1,956	**–**	–
Corporation tax	**509**	2,012	**–**	–
Provisions (note 23)	**2,998**	2,164	**–**	–
Total current liabilities	**28,611**	111,810	**–**	81,000

20 Non-current liabilities – amounts falling due after more than one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Financial liabilities				
– Bank loans (note 21)	**70,000**	–	**70,000**	–
Provisions (note 23)	**11,731**	17,764	**–**	–
Total non-current liabilities	**81,731**	17,764	**70,000**	–

21 Net borrowings

	Interest rates	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Secured					
Bank overdrafts and loans	vanable	**(76,790)**	–	**(70,000)**	–
Unsecured					
Bank overdrafts and loans	vanable	**–**	(81 987)	**–**	(81,000)
Total borrowings		**(76,790)**	(81,987)	**(70,000)**	(81,000)
Cash at bank and in hand		**92**	2,098	**–**	–
Net borrowings		**(76,698)**	(79,889)	**(70,000)**	(81,000)

At 31st December 2006 all the bank overdrafts and loans were secured by a fixed and floating charge over Group assets

Net borrowings for the Group are summarised as follows

	Repayable within 1 year £000	Repayable between 2 & 3 years £000	Total £000
Secured			
Bank overdraft and loans	(6,790)	(70,000)	(76,790)
Total borrowings	(6,790)	(70 000)	(76,790)
Cash at bank and in hand	92	–	92
At 31st December 2006	(6,698)	(70,000)	(76,698)
At 31st December 2005	(79,889)	–	(79,889)

Net borrowings for the Company are summarised as follows

	Repayable within 1 year £000	Repayable between 2 & 3 years £000	Total £000
Secured			
Bank loans	–	(70,000)	(70,000)
Total borrowings	–	(70,000)	(70,000)
At 31st December 2006	–	(70,000)	(70,000)
At 31st December 2005	(81,000)	–	(81,000)

22 Financial instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities is set out in the financial review

Interest rate profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31st December 2006 was

	Floating rate financial liabilities £000	Total £000
At 31st December 2006 – all sterling	79,529	79,529
At 31st December 2005 – all sterling	85,694	85,694

All the Group's current liabilities falling due within one year (other than bank and other borrowings and property provisions) are excluded from the above table either due to their short-term nature or because they do not meet the definition of a financial liability, such as tax balances

All floating rate interest rates are linked to LIBOR Included in floating rate liabilities are (a) £40,000,000 of borrowings upon which the Group has entered into interest rate swaps that have the effect of restricting LIBOR rates on those borrowings to no more than 5 50%, and (b) £20,000,000 of borrowings upon which the Group has entered into interest rate swaps that have the effect of restricting LIBOR rates on those borrowings to a range between 4 50% and 5 25%

Included in the above are the Group's provisions of £2,739,000 (2005 £3,707,000) for onerous contracts and other property provisions (note 23) which meet the definition of financial liabilities These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each half yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability Other floating rate financial liabilities bear interest at rates based on LIBOR, which are fixed in advance for periods of between one month and six months

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets was

	Floating rate financial assets 2006 £000	Financial assets on which no interest received 2006 £000	Total 2006 £000
Currency			
Sterling	86	6	92
At 31st December 2006	86	6	92

	Floating rate financial assets 2005 £000	Financial assets on which no interest received 2005 £000	Total 2005 £000
Currency			
Sterling	1,994	68	2,062
Australian dollars	–	33	33
New Zealand dollars	–	3	3
At 31st December 2005	1,994	104	2,098

22 Financial instruments continued

The financial assets comprise bank deposits, bank current account balances and cash in hand The floating rate financial assets earn interest at rates based on LIBOR and are all recoverable within one year or on demand The financial assets on which no interest is received represent cash in hand

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December 2006 was

	Borrowings 2006 £000	Property provisions 2006 £000	Total 2006 £000
Within 1 year or on demand	6,790	1,020	7 810
Between 1 and 2 years	-	639	639
Between 2 and 5 years	70,000	653	70,653
Over 5 years	–	427	427
At 31st December 2006	76,790	2,739	79,529

	Borrowings 2005 £000	Property provisions 2005 £000	Total 2005 £000
Within 1 year, or on demand	81,987	1,708	83,695
Between 1 and 2 years	–	1,007	1 007
Between 2 and 5 years	–	604	604
Over 5 years	–	388	388
At 31st December 2005	81,987	3,707	85,694

Borrowing facilities

The Group had the following undrawn floating rate committed borrowing facilities available in respect of which all conditions precedent had been met at that date

	2006 £000	2005 £000
Expiring within 1 year	**1,280**	19,000

All the above facilities incur commitment fees at market rates

Fair values of all financial assets and financial liabilities

The following table shows a comparison between the carrying amounts and the fair values of all the Group's financial assets and financial liabilities, including trade and other receivables and trade and other payables, both current and non-current

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. For floating rate financial assets and liabilities fair values approximate to book values

	2006		2005	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Financial assets – cash at bank and in hand	**92**	**92**	2,098	2,098
Short-term financial assets – trade and other receivables	**28,031**	**28,031**	39,632	39,632
Short-term financial liabilities – borrowings	**(6,790)**	**(6,790)**	(81,987)	(81,987)
Short-term financial liabilities – trade and other payables	**(18,314)**	**(18,314)**	(25,647)	(25,647)
Short-term financial liabilities – property provisions	**(1,020)**	**(1,020)**	(1,708)	(1 708)
Long-term financial liabilities – borrowings	**(70,000)**	**(70,000)**	–	–
Long-term financial liabilities – property provisions	**(1,719)**	**(1,719)**	(1,999)	(1,999)
	(69,720)	**(69,720)**	(69,611)	(69,611)

23 Provisions

	Pensions 2006 £000	Property 2006 £000	Total 2006 £000
Group – 2006			
At 1st January 2006	16,221	3,707	19,928
Contributions paid	(1,425)	–	(1 425)
Current service cost	605	–	605
Finance credit	(9)	–	(9)
Actuarial gain	(3,402)	–	(3,402)
Charge to income statement	–	692	692
Utilised in the year	–	(1,649)	(1,649)
Release on demerger	–	(151)	(151)
Unwinding of discount	–	140	140
At 31st December 2006	11,990	2,739	14,729
Analysed as			
Provisions estimated to be settled after more than one year	10,012	1,719	11,731
Provisions estimated to be settled within one year	1,978	1 020	2,998
Total provisions	11,990	2 739	14,729

The Company carried no provisions at either 31st December 2006 or 31st December 2005

	Pensions 2005 £000	Property 2005 £000	Total 2005 £000
Group – 2005			
At 1st January 2005	15 343	6,497	21,840
Contributions paid	(1,719)	–	(1,719)
Current service cost	1,218	–	1 218
Finance charge	325	–	325
Actuarial loss	1,054	–	1,054
Acquired on purchases of businesses	–	105	105
Release to income statement	–	(689)	(689)
Utilised in the year	–	(2,435)	(2,435)
Unwinding of discount	–	229	229
At 31st December 2005	16,221	3,707	19,928
Analysed as			
Provisions estimated to be settled after more than one year	15,765	1,999	17,764
Provisions estimated to be settled within one year	456	1,708	2,164
Total provisions	16,221	3,707	19,928

	Pensions 2005 £000	Property 2005 £000	Total 2005 £000
Company – 2005			
At 1st January 2005	–	386	386
Transfer to other Group companies	–	(386)	(386)
At 31st December 2005	–	–	–

23 Provisions continued

Pensions

The actuarial deficits on the Group's two defined benefit pension schemes total £11,990,000 (2005 £16,221 000) The assumptions used in calculating the combined deficit, and description of the schemes and their assets and liabilities generally, are further described in note 33

Property

The Group has a number of properties that are either vacant or sublet at a discount

The Group property provision of £2 739,000 (2005 £3,707,000) comprises £1,766,000 (2005 £2,182 000) in respect of lease contracts for such properties no longer occupied by the Group, £173,000 (2005 £466,000) in respect of associated lease dilapidations, £11,000 (2005 £146,000) in respect of associated other exit costs, and £789,000 (2005 £913 000) in respect of lease dilapidation obligations relating to properties that continue to be occupied

Provision has been made for onerous lease costs taking into account estimates of the length of time properties will be vacant (net of any potential sub-lease income where this can be estimated with a high degree of probability), together with any dilapidation costs and other costs associated with the termination or disposal of leases In determining the provision for vacant properties, the cash flows have been discounted using appropriate government bond rates The estimates used in determining the appropriate level of provision represent management's best view of likely market conditions after taking external advice Actual activity may differ from these estimates due to the effect of changes in the property market or subsequent business decisions These differences may have a material impact on the provisions established for these matters

24 Share capital

	Authorised		Allotted, issued and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each				
At 1st January 2006	96,000,000	9,600	87,633,070	8,763
Issued during the year	–	–	469	–
At 31st December 2006	96,000,000	9,600	87 633 539	8,763

Post-balance sheet event

On 24th January 2007 the Company announced a proposed rights issue to raise approximately £32,500,000 (£30,400,000 net of expenses), on the basis of 2 new ordinary shares for every 7 existing ordinary shares at a price of 130 pence per new ordinary share This issue was conditional, inter alia, upon shareholders approval to increase the authorised share capital from £9 600 000 to £12 200 000 by the creation of 26,000 000 new ordinary shares of 10 pence each in the capital of the Company and to authorise the allotment of the new ordinary shares, such approval to be sought at an Extraordinary General Meeting to be held on 9th February 2007 Approval was duly given at this meeting following which provisional allotment letters were sent to qualifying shareholders Net of fractional entitlements cancelled, the number of shares provisionally allotted was 25,037,560 On 7th March 2007 the Company announced that it had received valid acceptances in respect of 24,176,179 new ordinary shares, representing approximately 96 6 per cent of the total number of new shares offered to qualifying shareholders The Company further announced that a further 861,441 new shares, for which valid acceptances had not been received, had subsequently been placed with new acquirers The total number of new shares therefore issued via the rights issue is accordingly 25,037,620

Notes to the financial statements

for the year ended 31st December 2006

25 Share premium account and reserves

	Share premium account 2006 £000	Share payment reserve 2006 £000	Other reserves 2006 £000	Retained (losses)/ earnings 2006 £000
Group – 2006				
At 1st January 2006	43,224	636	864	(14,565)
Issue of shares	1	–	–	–
Share-based payments	–	315	–	–
Actuarial gains arising in defined benefit pension schemes	–	–	–	3,402
Deferred taxation arising on actuarial gains	–	–	–	(1,020)
Loss for the year	–	–	–	(10,905)
Dividends paid to equity shareholders	–	–	–	(2,629)
Dividend in specie	–	–	–	(16,171)
At 31st December 2006	43,225	951	864	(41,888)

At 31st December 2006, goodwill written off in prior years directly against retained earnings/(losses) in respect of subsidiaries still held by the Group was £16,891,000 (31st December 2005 – £16,891,000)

	Share premium account 2006 £000	Share payment reserve 2006 £000	Other reserves 2006 £000	Retained earnings/ (losses) 2006 £000
Company – 2006				
At 1st January 2006	43,224	636	25,750	67,364
Issue of shares	1	–	–	–
Share-based payments	–	315	–	–
Loss for the year	–	–	–	(1 260)
Dividends paid to equity shareholders	–	–	–	(2,629)
Dividend in specie	–	–	–	(16,171)
At 31st December 2006	43,225	951	25,750	47,304

Included in other Company reserves at 31st December 2006 are £25,750,000 of distributable reserves (2005 £21,512,000) and no non-distributable reserves (2005 £4,238,000) The retained earnings of the Company at 31st December 2006 include £14,168 000 that is distributable (2005 £18,057,000) and £33,136,000 that is non-distributable (2005 £49,307,000)

	Share premium account 2005 £000	Share payment reserve 2005 £000	Other reserves 2005 £000	Retained (losses)/ earnings 2005 £000
Group – 2005				
At 1st January 2005	43,224	211	864	(21,888)
Share-based payments	–	425	–	–
Actuarial losses arising in defined benefit pension schemes	–	–	–	(1,054)
Deferred taxation arising on actuarial losses	–	–	–	316
Profit for the year	–	–	–	10,251
Dividends paid to equity shareholders	–	–	–	(2 190)
At 31st December 2005	43 224	636	864	(14,565)

25 Share premium account and reserves continued

	Share premium account 2005 £000	Share payment reserve 2005 £000	Other reserves 2005 £000	Retained earnings/ (losses) 2005 £000
Company – 2005				
At 1st January 2005	43,224	211	25,750	48,200
Share-based payments	–	425	–	–
Profit for the year	–	–	–	21,354
Dividends paid to equity shareholders	–	–	–	(2,190)
At 31st December 2005	43,224	636	25,750	67,364

26 Statement of changes in equity

	2006 £000	2005 £000
Group		
Net recognised (expense)/income	**(8,499)**	9,716
Shares issued during the year	**1**	–
Dividends paid to equity shareholders	**(2,629)**	(2,190)
Dividend in specie	**(16,171)**	–
Increase in share payment reserve	**315**	425
(Decrease)/increase in total equity	**(26,983)**	7,951
Elimination of minority interest	**(277)**	–
Total equity at the beginning of the year	**39,175**	31,224
Total equity at the end of the year	**11,915**	39,175

	2006 £000	2005 £000
Company		
Net recognised (expense)/income	**(1,260)**	21,354
Shares issued during the year	**1**	–
Dividends paid to equity shareholders	**(2,629)**	(2,190)
Dividend in specie	**(16,171)**	–
Increase in share payment reserve	**315**	425
(Decrease)/increase in total equity	**(19,744)**	19,589
Total equity at the beginning of the year	**145,737**	126,148
Total equity at the end of the year	**125,993**	145,737

27 Minority interests

	2006 £000	2005 £000
At 1st January	**253**	50
Share of net profit of subsidiaries	**24**	203
Elimination on disposal	**(277)**	–
At 31st December	**–**	253

Notes to the financial statements

for the year ended 31st December 2006

28 Notes to the cash flow statements

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Continuing operations				
Reconciliation of profit/(loss) to cash generated from operations				
Profit/(loss) for the year	**9,569**	8,651	**(1,210)**	21,354
Adjustments for				
Tax expense/(credit)	**4,227**	3 140	**(1,360)**	(1,563)
Finance income	**(21)**	(30)	**–**	–
Finance expense	**4,831**	5,672	**4,532**	4,959
Goodwill and investment impairment	**–**	–	**16,171**	–
Dividend in specie receivable from subsidiary undertaking	**–**	–	**(16,171)**	–
Share-based payments	**221**	281	**–**	–
Amortisation of intangible assets	**331**	344	**–**	–
Depreciation of property, plant and equipment	**1,859**	2,570	**–**	–
Loss/(profit) on sale of property, plant and equipment	**58**	(4)	**–**	–
Gain on sale of subsidiary undertaking	**(1,962)**	–	**(1,962)**	–
Changes in working capital				
Decrease in provisions	**(1,634)**	(3 196)	**–**	(386)
(Increase)/decrease in trade and other receivables	**(373)**	6,933	**17,365**	16,262
Increase/(decrease) in creditors	**3,105**	(4,184)	**–**	(23 498)
Cash generated from operations	**20,211**	20,177	**17,365**	17 128

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash and cash equivalents	**(2,006)**	1,119	**–**	(114)
Decrease in loans from banks	**11,000**	3,000	**11,000**	3,000
(Increase)/decrease in bank overdrafts	**(5,803)**	614	**–**	7,116
	3,191	4,733	**11,000**	10,002
Net debt at the beginning of the year	**(79,889)**	(84,622)	**(81,000)**	(91 002)
Net debt at the end of the year	**(76,698)**	(79,889)	**(70,000)**	(81,000)

29 Operating lease commitments

The Group has numerous premises operated under leases whose terms, conditions and expiry dates vary considerably, some of which are no longer occupied by the Group In addition the Group leases items of plant and equipment and in particular has entered into a contract hire agreement to lease motor vehicles

At 31st December 2006 the net total commitment in respect of operating leases is as follows

	Plant & equipment including motor vehicles £000	Land & buildings occupied by Group £000	Land & buildings not occupied by Group £000	Total £000
For leases expiring				
within one year	107	1 020	59	1,186
between two and five years	907	1,621	956	3,484
beyond five years	–	5,396	1,309	6,705
	1,014	8,037	2,324	11,375

29 Operating lease commitments continued

At 31st December 2005 the net total commitment in respect of operating leases was as follows

	Plant & equipment including motor vehicles £000	Land & buildings occupied by Group £000	Land & buildings not occupied by Group £000	Total £000
For leases expiring				
within one year	174	667	93	934
between two and five years	981	3,822	1,062	5,865
beyond five years	–	5,515	3 515	9,030
	1,155	10 004	4,670	15,829

30 Employees

	2006 £000	2005 £000
Employee costs for the Group – continuing operations		
Wages and salaries	**100,042**	91,938
Social security costs	**6,325**	6,917
Pension costs	**815**	1,012
Share-based payments	**221**	281
	107,403	100,148

Average number of persons employed – continuing operations		
Full time	**1,590**	1,542
Part time	**4,454**	4,892
	6,044	6,434

Employee numbers by business segment – continuing operations		
Social Care	**4,777**	5,015
Primary Care	**1,267**	1,419
	6,044	6,434

31 Compensation of directors and key management

	2006 £000	2005 £000
Directors and other key management		
Salaries and short-term employee benefits	**2,178**	1,856
Post-employment benefits	**281**	290
Termination benefits	**304**	–
Share-based payments	**261**	235
	3,024	2,381

Notes to the financial statements
for the year ended 31st December 2006

31 Compensation of directors and key management continued

	2006 **£000**	2005 £000
Directors		
Aggregate emoluments	**1,486**	1,020
Company contributions to money purchase pension schemes	**35**	21
	1,521	1,041

Aggregate emoluments of directors include £175,000 (2005 £nil) compensation for loss of office, including £nil (2005 £nil) company contributions to money purchase pension schemes

The detailed numerical analysis of directors' aggregate emoluments is included in the tables in the remuneration report on pages 27 to 28 which form part of these financial statements

32 Share-based payments

Fair values have been calculated and charged to operating profit for all share-based payments These consist of grants of shares and share options under various schemes to directors, key managers and other employees Assumptions used and results of the fair value calculations are set out below

	Exercise price (pence)	Shares under option at 01 01 05	Shares under option at 31 12 05	**Shares under option at 31 12.06**	Vesting periods
Savings Related Share Option Scheme – 2003 awards	157 12	462,442	214,942	**38,886**	3 to 5 years
Savings Related Share Option Scheme – 2004 awards	156 96	266,169	157,959	**103,279**	3 to 5 years
Savings Related Share Option Scheme – 2005 awards	121 16	–	429,230	**212,603**	3 to 5 years
Share Option Plan 2002 – 2003 awards	273 50 and 301 00	357 748	243,748	**208,248**	3 years
Share Option Plan 2002 – 2005 awards	152 75 and 114 50	–	1,559,057	**1,214,509**	3 years
Long-term Incentive Plan – deferred shares – 2004 award	–	13,076	13,076	**13,076**	3 years
Long-term Incentive Plan – matching shares – 2004 award	–	55,405	55,405	**55,405**	3 years
Long-term Incentive Plan – deferred shares – 2005 award	–	–	27,923	**27,923**	3 years
Long-term Incentive Plan – matching shares – 2005 award	–	–	158,652	**156,652**	3 years
Performance Share Plan – 2006 award	–	–	–	**952,930**	3 years
		1,154,840	2,859,992	**2,983,511**	

Assumptions

The share price used in the calculation of fair value has in each case been the share price on the date of grant.

SAYE awards must be exercised within six months of vesting Assumed life terms have accordingly been set at either 3 25 years or 5 25 years for these awards Share Option Plan 2002 awards may be exercised within three to ten years from the date of award Exercise of these options is assumed to be spread through this period Fixed three-year terms have been assumed for the LTIP and PSP awards

The expected volatility is based on historical volatility over periods which correspond to the forward life assumptions for each category of award, being 3 25 to 5 25 years for SAYE awards, six years effective average for Share Option Plan 2002 awards and three years for LTIP and PSP awards. Two periods of exceptional volatility have been excluded, with additional historical data substituted in their place

The risk-free rate of interest assumed is the rate of interest obtainable from government securities over the same expected terms as have been used for the volatility calculations

The expected dividend yield assumed has been calculated on the basis of publicly available information at the respective grant dates, being the historical dividend yield

The LTIP matching shares awards and PSP award are subject to a TSR vesting condition This condition has been allowed for in the calculations of fair value

Lapsing rates of 10% per annum have been assumed for SAYE awards, 7 5% per annum for Share Option Plan 2002 awards and 0% for LTIP awards

32 Share-based payments

Results of calculations of fair value

The fair value of share-based transactions has been calculated using a stochastic simulation modelling technique, developed in consultation with an independent third party advisor The charge so calculated for 2006 is £315,000 (2005 £425,000) The elements of this charge analysed by share-based transaction are as follows

	Fair value of one option £	**Total fair value charge 2006 £000**	Total fair value charge 2005 £000
Savings Related Share Option Scheme – 2003 awards	0 47	**8**	22
Savings Related Share Option Scheme – 2004 awards	0 54	**18**	21
Savings Related Share Option Scheme – 2005 awards	0 69 and 0 73	**37**	51
Share Option Plan 2002 – 2003 awards	0 72 and 0 87	**–**	68
Share Option Plan 2002 – 2005 awards	0 48 and 0 43	**178**	204
Long-term Incentive Plan – deferred shares – 2004 award	1 81	**6**	6
Long-term Incentive Plan – matching shares – 2004 award	0 83	**15**	15
Long-term Incentive Plan – deferred shares – 2005 award	1 44	**9**	9
Long-term Incentive Plan – matching shares – 2005 award	0 85	**45**	29
Performance Share Plan – 2006 award	0 84	**180**	–
Writebacks of charges taken in prior years		**(181)**	–
		315	425

	Total fair value charge 2006 £000	Total fair value charge 2005 £000
Charged to continuing operations	**221**	281
Charged to discontinued operations	**94**	144
	315	425

33 Pension commitments

The Group has accounted for pensions in accordance with IAS 19 and the disclosures given below are those required by that standard

Group defined benefit pension schemes

The Group operates two funded pension schemes providing benefits based on final pensionable salary The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme) Both schemes are closed to new members The schemes are administered by Trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme

Neither scheme holds any investment in any financial instrument issued by the Group Neither are any of the schemes' property or other assets occupied or used by the Group

There are no informal practices applied that might give rise to any constructive obligations

Nestor Scheme

Watson Wyatt Limited consulting actuaries carried out an actuarial valuation of the Nestor Scheme as at 5th April 2003 On the actuarial basis used, as at that date the assessed value of the assets was 62% of the value placed on the liabilities in respect of benefits earned to 5th April 2003 allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity

The market value of the investments held in the Nestor Scheme as at the valuation date was £9 923 000 In addition there were pensions in payment secured by the purchase of annuities

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings These rates were set relative to an assumed long-term rate of price inflation of 2 5% per annum

33 Pension commitments continued

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 2 0% per annum relative to price inflation for pensioners and 5 0% per annum before retirement and 3 0% per annum after retirement for non-pensioners Pensionable earnings were assumed to increase on average at a rate of 2 0% per annum ahead of price inflation with promotional increases assumed in addition

The employer's contribution rate, currently 22 4% (32 4% for certain current and past executive directors), is calculated using the projected unit method and the shortfall of assets as at 5th April 2003 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members As the Nestor Scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement

A further valuation of the Nestor Scheme is being carried out by Watson Wyatt Limited as at 5th April 2006

Healthcall Scheme

Watson Wyatt Limited, consulting actuaries, carried out an actuarial valuation of the Healthcall Scheme as at 1st November 2004 On the actuarial basis used, as at that date, the assessed value of the assets was 62% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity

The market value of the investments held in the scheme as at the valuation date was £7,744 000 In addition there were pensions in payment secured by the purchase of annuities

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return and the rate of increase in pensionable earnings These rates were set relative to an assumed long-term rate of price inflation of 2 75% per annum

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 2 0% per annum relative to price inflation for pensioners and 4 25% per annum before retirement and 2 75% per annum after retirement for non-pensioners Pensionable earnings were assumed to increase on average at the same rate as price inflation

The employer's contribution rate, currently 14 9% is calculated using the projected unit method and the shortfall of assets as at 1st November 2004 is amortised as annual payments of £640 000 over the average remaining expected service lives of the active members As the Healthcall scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement

A further valuation of the Healthcall Scheme is being carried out by Watson Wyatt Limited as at 1st November 2006

Other schemes

The Group also operates several defined contribution schemes with varying rates of employer contribution

	2006 £000	2005 £000
Pension charge		
Current service cost of defined benefit schemes	**605**	1,218
Group contributions to defined contribution schemes	**284**	247
	889	1,465
Net finance (credit)/charge relating to defined benefit schemes	**(9)**	325
Pension charge	**880**	1,790

The current service cost of defined benefit schemes is stated net of a curtailment gain of £354,000 which arose on the demerger of the Healthcare Staffing business segment in September 2006, and which materially reduced the liabilities in respect of 28 members of the Nestor Scheme

The cost of expenses associated with the Nestor Scheme are implicit in both the service cost and the employer contributions payable The cost of expenses associated with the Healthcall Scheme are not included in the service cost or the pension charge, being paid direct by the Group and charged elsewhere to the income statement. The cost of the expenses associated with the Healthcall Scheme was £90,000 (2005 £17,000, following adoption of the changed treatment as from 1st November 2005)

At 31st December 2006 £77 000 had yet to be paid to the respective schemes (2005 £95,000)

Valuations

The valuation used for IAS 19 disclosures has been based on the results of an actuarial valuation of the Nestor Scheme as at 5th April 2003 (and also on the results of certain calculations performed for the actuarial valuation as at 5th April 2006) and on the last actuarial valuation of the Healthcall Scheme as at 1st November 2004 and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at 31st December 2006 Assets of the schemes are stated at their market valuation at 31st December 2006

The accounting policy applied in respect of recognised actuarial gains and losses is to account for them immediately and in full within the statement of recognised income and expense

33 Pension commitments continued

Mortality assumptions

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity The assumptions are equivalent to expected longevity at age 65 for members in normal health approximately as follows

- pensioners currently aged 65 males 21 8 years, females 24 2 years
- non-pensioners currently aged 45 males 23 0 years, females 25 8 years

Commutation assumptions

An allowance has been made in the assumptions adopted as at 31st December 2006 (but not at 31st December 2005) for members to commute pensions at retirement It has been assumed that members commute 20% of their pension, on the basis of the commutation rates currently in force

	2006	2005
Financial assumptions used to calculate the schemes' liabilities		
Valuation method	**Projected unit**	Projected unit
Discount rate	**5 10%**	4 80%
Inflation rate	**3 00%**	2 80%
Increases to pensions in payment and deferred pensions*	**3 00%**	2 80%
Salary increases	**4 95%**	4 75%

* Different increases assumed for certain elements of pension

	2006	2005
Financial assumptions used to calculate the schemes' net service costs for the year		
Valuation method	**Projected unit**	Projected unit
Discount rate	**4.80%**	5 40%
Inflation rate	**2.80%**	2 80%
Increases to pensions in payment and deferred pensions*	**2.80%**	2 80%
Salary increases	**4.75%**	4 75%

* Different increases assumed for certain elements of pension

	Long-term rate of return expected on 31st December 2006	**Value at 31st December 2006 £000**	Long-term rate of return expected on 31st December 2005	Value at 31st December 2005 £000
Assets in the schemes and the expected rates of return				
Equities	**8 00%**	**25,321**	8 00%	24,452
Bonds	**4 70%**	**5,918**	4 25%	2,136
Other	**5 00%**	**1,753**	4 00%	3,057
Total market value of assets		**32,992**		29,645
Present value of schemes' liabilities		**(44,982)**		(45,866)
Deficit in the schemes – pension liabilities		**(11,990)**		(16,221)
Related deferred tax asset		**3,597**		4 866
Net pension liability		**(8,393)**		(11,355)

The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations Consideration is also given to the rate of return expected to be available for reinvestment The overall expected rate of return on assets is derived as the weighted average of the expected returns from each of the main asset classes

33 Pension commitments continued

	2006 £000	2005 £000
Movement in the deficit in the schemes during the year		
Deficit in the schemes at the beginning of the year	**(16,221)**	(15,343)
Contributions paid	**1,425**	1,719
Current service cost	**(605)**	(1,218)
Other finance credit/(charge)	**9**	(325)
Actuarial gain/(loss)	**3,402**	(1,054)
Deficit in the schemes at the end of the year	**(11,990)**	(16,221)

Components of defined benefit cost for the year

	2006 £000	2005 £000
Analysis of amounts charged to operating profit		
Current service cost	**605**	1,218
Analysis of amounts charged to finance expense		
Interest on pension scheme liabilities	**2,212**	2,138
Expected return on assets in the pension scheme	**(2,221)**	(1,813)
Net (credit)/charge to finance expense	**(9)**	325
Total income statement charge before deduction for tax	**596**	1,543

	2006 £000	2005 £000
Analysis of amounts recognised in the statement of recognised income and expense		
Actual return on assets	**2,645**	5,065
Expected return on assets	**(2,221)**	(1,813)
Actuarial gain on assets	**424**	3,252
Experience gains/(losses) arising on the scheme liabilities	**2,978**	(4,306)
Actuarial gain/(loss) recognised in the statement of recognised income and expense	**3,402**	(1,054)

	2006 £000	2005 £000
Reconciliation of the present value of defined benefit obligation ("DBO")		
Present value of DBO at the beginning of the year	**45,866**	39,448
Service cost	**605**	1,218
Interest cost	**2,212**	2,138
Employee contributions	**161**	219
Actuarial (gain)/loss	**(2,978)**	4 306
Actual benefit payments including expenses	**(1,342)**	(1,463)
Adjustment to value placed on insurance policies	**458**	–
Present value of DBO at the end of the year	**44,982**	45 866

33 **Pension commitments** continued

	2006 £000	2005 £000
Reconciliation of the fair value of assets		
Present value of assets at the beginning of the year	**29,645**	24 105
Expected return on assets	**2,221**	1,813
Actuarial gain	**424**	3,252
Group contributions	**1,425**	1,719
Employee contributions	**161**	219
Actual benefit payments including expenses	**(1,342)**	(1 463)
Adjustment to value placed on insurance policies	**458**	–
Fair value of assets at the end of the year	**32,992**	29,645

	2006 £000	2005 £000
History of experience adjustments		
Present value of defined benefit obligations	**(44,982)**	(45,866)
Fair value of scheme assets	**32,992**	29,645
Deficit in the schemes at the end of the year	**(11,990)**	(16,221)

	2006	2005	2004
Experience gains/(losses) on scheme liabilities.			
Amount (£000)	**2,978**	(4 306)	(576)
Percentage of present value of scheme liabilities	**6 6%**	(9 4%)	(1 5%)
Experience gains/(losses) on scheme assets			
Amount (£000)	**424**	3,252	428
Percentage of present value of scheme assets	**1 3%**	11 0%	1 8%

34 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year Share options in issue expire after a certain time and exercise dates vary Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years In addition, achievement of performance targets is normally required in all schemes except the SAYE Scheme

	Date of issue	Option price (pence)	In issue 1st Jan 2006	Granted in the year	Exercised in the year	Lapsed in the year	**In issue 31st Dec 2006**
Company Share Option Plan 1996							
	April 1998	236 50	4,661	–	–	–	**4,661**
	October 1998	339 50	4,602	–	–	–	**4,602**
	April 1999	407 50	7 998	–	–	–	**7,998**
	October 1999	596 50	12,915	–	–	–	**12,915**
	May 2000	425 00	85,876	–	–	(26,766)	**59,110**
	March 2001	542 50	24,526	–	–	(12,278)	**12,248**
	October 2001	510 00	17,646	–	–	(5,882)	**11,764**
	April 2002	544 00	11 028	–	–	–	**11,028**
			169 252	–	–	(44,926)	**124,326**
Employee Share Option Scheme 1996							
	April 1998	236 50	48,466	–	–	(42,283)	**6,183**
	April 1999	407 50	20,417	–	–	(12,132)	**8,285**
	May 2000	425 00	106,469	–	–	(49 209)	**57,260**
	March 2001	542 50	66,006	–	–	(23,162)	**42,844**
	October 2001	510 00	49,314	–	–	(1 961)	**47,353**
	April 2002	544 00	39 522	–	–	–	**39,522**
			330,194	–	–	(128,747)	**201,447**
Share Option Plan 2002							
	July 2002	267 50	201,304	–	–	(71,007)	**130,297**
	October 2002	212 50	171,764	–	–	–	**171,764**
	June 2003	273 50	112 248	–	–	–	**112,248**
	November 2003	301 00	131,500	–	–	(35,500)	**96,000**
	January 2005	152 75	1,467,354	–	–	(344,548)	**1,122,806**
	November 2005	114 50	91,703	–	–	–	**91,703**
			2,175,873	–	–	(451,055)	**1,724,818**
Savings-Related Share Option Scheme							
	April 2001	447 20	10,106	–	–	(6,033)	**4,073**
	April 2002	454 80	10,528	–	–	(1,509)	**9,019**
	April 2003	157 12	214,942	–	–	(176,056)	**38,886**
	April 2004	156 96	157,959	–	–	(54,680)	**103,279**
	April 2005	121 16	429,230	–	(469)	(216,158)	**212,603**
			822,765	–	(469)	(454,436)	**367,860**
Total			3,498,084	–	(469)	(1,079,164)	**2,418,451**

Five year summary

	As stated historically			Continuing operations	
	2002	2003	2004	2005	**2006**
	£000	£000	£000	£000	**£000**
Group income statement					
Revenue	482,695	423,161	389,839	205,724	**172,640**
Operating profit/(loss)	29,669	20 392	(41,920)	17,433	**18,606**
Exceptional items	(17 300)	(2,680)	-	-	**-**
Profit/(loss) before net finance expense	12,369	17,712	(41,920)	17 433	**18,606**
Net finance expense	(4,238)	(4 110)	(5,608)	(5 642)	**(4,810)**
Profit/(loss) before taxation	8 131	13,602	(47 528)	11,791	**13,796**
Tax expense	(6,052)	(4,353)	(2,364)	(3,140)	**(4,227)**
Profit/(loss) for the year	2,079	9,249	(49,892)	8 651	**9,569**
Profit/(loss) attributable to shareholders	2,031	9,202	(50,010)	8,448	**9,545**
Profit attributable to equity minority interests	48	47	118	203	**24**
Profit/(loss) for the year	2 079	9,249	(49,892)	8,651	**9,569**
Basic earnings/(loss) per 10p share	2 19p	9 88p	(53 62p)	9 28p	**10 26p**

The results for 2005 and 2006 are for continuing operations only It has not been practicable to restate prior years to exclude the now discontinued operations hence results for these years are stated without amendment from those previously reported

The results for 2004, 2005 and 2006 are presented consistent with the application of IFRS The results for prior years are presented consistent with UK GAAP as had then been applied Results for these years are not therefore directly comparable with those for 2004, 2005 and 2006

In particular, material differences are as follows

- Items that would have been charged to exceptional items under UK GAAP were charged to operating profit under IFRS in 2004
- Goodwill amortisation that was charged under UK GAAP in 2003 and prior years was not charged under IFRS in 2004, 2005 or 2006,
- Intangible assets have been recognised and amortised under IFRS in 2004, 2005 and 2006
- A charge for share-based payments has been made under IFRS in 2004, 2005 and 2006, and
- Charges relating to defined benefit pension schemes have been calculated differently under IFRS than had been the case under UK GAAP

It should be noted that the 2004 operating loss is stated after charging £62,021,000 that had been accounted for as exceptional items, including goodwill impairment under UK GAAP

Earnings/(loss) per share figures for all years have been adjusted to allow for the bonus element of the rights issue made in 2007

2002 has been restated to reflect the full adoption of FRS 19

Five year summary continued

	2002 £000	2003 £000	2004 £000	2005 £000	**2006 £000**
Group balance sheet					
Goodwill	138 049	161,085	114,199	113,839	**84,369**
Other intangible assets	–	–	641	739	**408**
Property, plant and equipment	12 741	12,968	7,534	5,105	**3,647**
Other non-current assets	1	–	6,629	7,336	**5,710**
Total non-current assets	150,791	174,053	129 003	127,019	**94,134**
Current assets excluding cash	59 187	61,496	50,928	39,632	**28,031**
Current and non-current liabilities excluding borrowings	(61 898)	(57,284)	(64,085)	(47,587)	**(33,552)**
Net operating assets	148,080	178,265	115 846	119,064	**88,613**
Net borrowings	(59 761)	(89 344)	(84 622)	(79,889)	**(76,698)**
Net assets	88,319	88,921	31,224	39,175	**11,915**
Share capital	8,747	8,763	8,763	8,763	**8,763**
Share premium account	43,022	43,222	43 224	43,224	**43,225**
Other reserves	36,229	37 004	(20 813)	(13,065)	**(40,073)**
Equity shareholders funds	87,998	88,989	31,174	38,922	**11,915**
Equity minority interests	321	(68)	50	253	**–**
Total equity	88,319	88,921	31,224	39,175	**11,915**

		As stated historically		**Continuing operations**	
	2002 £000	2003 £000	2004 £000	2005 £000	**2006 £000**
Group cash flow statement					
Net cash inflow from operating activities before exceptional items	54 144	24 990	26 692	20,177	**20,211**
Cash flow from exceptional items	(2,300)	(1,899)	–	–	**–**
Interest paid, net	(3 896)	(3,744)	(5,556)	(5,526)	**(4,495)**
Tax paid	(6,240)	(5,711)	(3,930)	(4,390)	**(4,513)**
Capital expenditure, net	(6,743)	(5,730)	(2,543)	(326)	**(1,109)**
Acquisitions and disposals	(12,640)	(29 285)	(4 562)	(3,735)	**749**
Equity dividends paid	(7,499)	(8,420)	(5,381)	(2,190)	**(2,629)**
Issue of shares	763	216	2	–	**1**
Decrease/(increase) in loans and overdrafts	(10,404)	25,229	(6,671)	(3 614)	**(5,197)**
Increase/(decrease) in cash	5 185	(4,354)	(1 949)	396	**3,018**

The cash flows for 2005 and 2006 are for continuing operations only It has not been practicable to restate prior years to exclude the now discontinued operations, hence cash flows for these years are stated without amendment from those previously reported

The figures for 2004, 2005 and 2006 are presented consistent with the application of IFRS The figures for prior years are presented consistent with UK GAAP as had then been applied Figures for these years are not therefore directly comparable with those for 2004, 2005 and 2006

In particular, material differences are as follows

- Items that would have been charged to exceptional items under UK GAAP were charged to operating profit under IFRS in 2004,
- Goodwill amortisation that was charged under UK GAAP in 2003 and prior years was not charged under IFRS in 2004, 2005 and 2006,
- Intangible assets have been recognised and amortised under IFRS in 2004, 2005 and 2006, and
- Deficits relating to defined benefit pension schemes have been incorporated into balance sheets under IFRS

2002 has been restated to reflect the full adoption of FRS 19

Shareholder information

Financial calendar

Announcement of 2007 results (provisional)	
For the half-year	August 2007
For the year	March 2008
Annual Report and Accounts circulated	March 2008
Annual General Meeting	April 2008

Dividends

Proposed final dividend 2006	
Announcement	8th March 2007
Ex-dividend	2nd May 2007
Record date	4th May 2007
Payment date	1st June 2007
Interim dividend 2007 (provisional)	
Announcement	August 2007
Payment	October 2007

Analysis of shareholdings

Immediately prior to completion of the rights issue (the latest practicable date for analysis), the Company had 1 082 shareholders who held 87,633,539 shares between them, analysed as follows

Size of holding	Number of shareholders	% of shareholders	Number of shares	% of shares
1 – 5,000	858	79 15	863 493	0 98
5,001 – 50,000	142	13 20	2 234,137	2 55
50,001 – 100,000	18	1 66	1,285,137	1 47
100,001 and over	64	5 99	83 250,772	95 00
	1 082	100 00	87,633,539	100 00

Type of shareholder				
Individuals	744	68 64	1,546,327	1 76
Nominee companies*	286	26 38	76,312,531	87 09
Other corporate and public bodies	52	4 98	9,774 681	11 15
	1,082	100 00	87 633,539	100 00

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts

Share registrar

The Company's registrar is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

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